PRINCIPLES OF RURAL CREDITS

BY

JAMES B. MORMAN

The Rural Science Series

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THE PRINCIPLES OF RURAL CREDITS

AS APPLIED IN EUROPE AND AS SUGGESTED FOR AMERICA

BY

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WITH AN INTRODUCTION BY

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TO THE FARMERS
OF
THE UNITED STATES AND CANADA,
THIS BOOK
IS
HOPEFULLY DEDICATED

PREFACE

THE aim of this little book is to show how farmers may be successfully financed. The subject is of general interest and is attracting much attention at the present time. To deal with the question intelligently, however, it is necessary to set before the American people the most reliable information on the subject that is available, with a view of establishing a rural credit system for all classes of farmers. Hence, the book naturally falls into two parts: The first part to set forth the information, the second part to show how it may be applied in formulating a credit system for American farmers.

This is what I have sought to do in the following pages. Europe is the recognized practical field where all phases of rural credit can be found in operation. But conditions of rural life are not comparable on the two continents. It is evident, therefore, that whatever is done for organizing rural credit in the United States and Canada, must be an adaptation of the European system. To this end, it seems probable that legislative action will soon be more pronounced as a result of the growing interest in rural credits. But to act wisely in the matter, legislators should have before them all essential facts relating to different ways of financing farmers. It has been my aim to present these facts in as concise a form as possible not only for legislators, but for our farmers and the general public.

For the promotion of agriculture is an affair of the people, and nothing will aid agriculture more than a sound system of rural credits. Information from various reliable sources has been freely used in the compilation of this volume. The chief sources of information are noted in the bibliography at the end of the text.

JAMES B. MORMAN.

KENSINGTON, MD.
February 11, 1915.

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INTRODUCTION

THE RURAL CREDIT PROBLEM AND RURAL CREDITS COMMISSIONS

THAT there is a widespread interest in the subject of rural credits in the United States and in Canada at the present time seems clear. I have no doubt but that this interest will continue until complete systems of credits for farmers have become established facts. While the problems relating to rural credits are not new on this continent, the present problems are quite distinct from those of past decades.

During the nineteenth century land and credit problems held prominent places in state and national programs, as well as in political, economic and social programs, but they were very different from the problems of to-day. During that century systems of surveying and of dividing the land into distinctive units were established. Systems of titles, together with methods of recording and registering, came into use over the continent. Mortgage systems and various other land legislation found place. National legislation included preëmption, homestead, and stone and timber claim acts, which made possible the greater agricultural development of the continent. Indeed, during that century, new and great policies of land tenure and farm finance were evolved; but no special system, no defi-

nite financial institution for purely agricultural purposes, found its way into this country or Canada.

During this period farmers did not organize for co-operative credit as in other countries. This was due in no small degree to the presence of free land, to the constant onward movement to the frontier, to the instability of farm-land values, to the presence of general financial institutions which seemed to serve the farmers reasonably well at the time, to the fact that farmers were untrained and unwilling to try to organize in this difficult field, particularly because they were busily engaged in opening up a new country, and, finally, to the fact that, in the agricultural system which was being built up, farmers were being trained to be much more individualistic than was commonly found to be the case in European and other civilized countries.

Land values were very unstable during these formative days of agriculture in this country. This was before the advent of complete transportation systems equipped to carry the various products of American farms or before the perfection of systems of communication to make known the location and quantity of farm products to meet the requirements of supply and demand. This was before the days of exchanges which were established to aid in the equalizing of values of farm products, before the days of cold storage and refrigeration, or before adequate data as to rainfall, temperature, and so on, were available as a basis for intelligent agricultural planning. This was while farm machinery and the methods of conducting agricultural operations were constantly changing, while the great ranges of the West were the bases of our live-

stock industry, and while our grain, cotton and fruit producing centers were rapidly shifting from the East to the West. During this formative period of agriculture, farmers were poorly educated and rural credit systems, such as had been developing rapidly in many other civilized countries, found small place in this country.

But, during the last part of the nineteenth century and the first decade of this century, the need of an efficient system of financing agriculture began to show itself more and more plainly. Individuals here and there talked of the needs and suggested solutions. Deeds, contracts for deeds, abstracts, mortgages, deeds of trust, and other instruments had taken definite and more or less final form. Systems of recording or registering these instruments and of insuring titles were rapidly being perfected. Shifts, readjustments and changes grew less and less pronounced; stability became more and more the order of the day. Land values commenced to be something definite. Farmers became better and better educated. Free land largely disappeared. A falling off in the exports of agricultural products and their increased and more stable values showed a growing need for improved credit facilities to further well-planned irrigation or drainage programs in some sections, systems of clearing and improving land, more definite systems of road construction, proper building programs, and better and more equipments on farms. By 1910 improved rural credit systems were demanded more and more all over America and were discussed more and more by farmers, students and financial and commercial agencies. Political parties, also, seeing the need

and also the opportunity, commenced to promise legislation of one kind or another.

At first the needs were little understood and poorly analyzed. No attempt was made to separate the needs of farm owners from those of farm tenants, or the needs of farm tenants from those of hired laborers on farms. Because "Uncle Sam had land enough to give us all a farm" during the nineteenth century, many assumed that there should be no permanent tenants and that hired farm laborers must be practically all members of the families of farmers. Now, however, we know that farmers in this country spend considerably more than six hundred million dollars a year for hired labor, which is a fund nearly if not quite large enough to engage as many as two or two and a half million hired laborers continuously. Notwithstanding the free land on the frontier, we now find that two and a third million farms are operated by tenant families. We also know that the needs of the four million farmers who live upon their own farms vary greatly with the conditions which prevail in different sections of the country. The above facts relate to the United States alone. The complex problems of Canada add to the number and complexity of the important problems to be solved on the American continent.

In view of the new manifestations and complexities of the problem, the few students of this country who had seriously contemplated them were much at a loss to know how to proceed. The securing of information and placing it before the public seemed to be the first prerequisite of intelligent legislative action in behalf of credit for farmers. Two quite independent phases of the subject faced the

investigators, namely, the personal or short-term credit and the land mortgage or long-term credit which differed so radically from each other.

About 1910, when the whole subject of rural credits commenced to come into great prominence in this country, those most deeply interested naturally turned to Europe for information. It was deemed desirable to investigate the methods of financing farmers in the various countries where the greatest progress had been made. The Department of State at Washington and the American Bankers' Association made careful studies and published considerable data on the subject. The permanent American delegate at the International Institute of Agriculture at Rome, Italy, added many valuable reports.

By this time reliable information in great detail and from first-hand sources by personal study in Europe was believed to be the thing needed if the work of establishing satisfactory rural credit systems for American farmers was to be successfully carried out. The Southern Commercial Congress, an organization interested in the development of agriculture and other industries in the South, sought to bring together a commission composed of two representatives from each state in the Union, as well as two from each province of Canada. The object of the commission was to study personally in the various European countries all phases of agricultural coöperation as well as all phases of rural credits. In order that rapid progress might be made, a very large body of delegates was contemplated in order that subcommittees might make studies in separate countries and report at stated times to the whole commission. Though this representa-

tive body was not as large as originally contemplated, since all the states and provinces were not represented, there were delegates from all sections of the United States and Canada. This commission was brought together in the spring of 1913 and was duly organized as the American Commission.

In the meantime, so great had become the national interest in the subject, that Congress voted to send a representative body to coöperate with the American Commission in this work of studying rural credit systems abroad. Under authority conferred by Congress, President Woodrow Wilson appointed the United States Commission on Rural Credits, with a membership of seven. The double honor was conferred on the writer of this introduction of being appointed a member of the United States Commission and of being elected as its secretary. As a member of the American Commission, he also served as secretary of the committee charged with the preparation of its final report. The two commissions spent many months visiting European countries, gathering information, and preparing reports for the information and assistance of those in the United States who would be charged with the responsibility of state and national legislation. During the same time they carried on a public campaign of education, trying in this way to prepare the country to pass intelligent judgment on the subject.

Two methods of procedure were followed by the commissions: (1) To secure reliable and authoritative statements from qualified persons in each European country visited on all aspects of agricultural coöperation and

rural credits; and (2) to supplement this information with personal study and investigation.

The first method was accomplished by official sanction. The organization of the commissions had been heralded abroad, months before their departure from the United States, to the different European countries by means of their delegates to the International Institute of Agriculture at Rome, Italy, and as a result the desired information was prepared in the various countries visited by officers of farmers' associations, by governmental specialists, and by rural economists.

All the information secured was carefully and critically studied, translations were made where necessary, and these authoritative papers and documents, together with the results of personal study and investigation, were published in a volume of some nine hundred large pages as Senate Document No. 214, Sixty-third Congress, First Session.

This immense volume, crammed full of authoritative papers and documents, is beyond the reach of the average citizen because of its limited issue. In order that the principal results might become available, suggestion was made that this report should be abstracted and a popular edition containing all fundamentals be sent broadcast over the country. There seemed to be no practicable way of doing this as a public document, so the writer of this introduction suggested to J. B. Morman the preparation of a volume for American readers on European rural credit systems and their lessons. It was suggested that the material found in Senate Document 214 and other papers might be abstracted and popularized, and that this

might be used as a basis for the volume suggested. The task was readily undertaken and is herewith presented.

I have gone over the first part of this little volume, the subject-matter of which I was more or less familiar with from years of study in this country and abroad and because of my connection with the United States and American Commissions. The lessons from this study on European rural credits drawn by the author is an attempt to adapt those methods to prevailing rural conditions in the United States. With what success this has been accomplished must be left to the judgment of our farmers, the general public, and our state and national legislators. A large number of bills suggesting national legislation are before Congress as I write, and many more bills are before various state legislatures.

My files are heavy with correspondence on this matter of rural credits, and as I have gone over the subject myself and have realized the many difficulties which beset the student of the problem of efficiently financing the farmers of the United States and Canada, I feel that the views which the author of this volume has presented are deserving at least of serious consideration by those who have the welfare of the farmer at heart.

JOHN LEE COULTER.

NASHVILLE, TENN.
January 15, 1915.

PRINCIPLES OF RURAL CREDITS

PART I

THE METHODS OF FINANCING FARMERS IN EUROPEAN COUNTRIES

CHAPTER I

PERSONAL CREDIT FOR THE LANDOWNING FARMER

Germany is the birth-place of personal or short-time rural credit in Europe. The system was developed under conditions altogether different from those which prevail in America, and these conditions may be taken as largely typical of those in many other European countries. In order to learn how the farmers have succeeded so well in financing themselves, it will be necessary to survey briefly rural conditions as they exist there. Only in this way will it be possible to see to what extent the European personal credit systems among farmers are adapted to the needs and conditions of our own country.

FARM HOLDINGS

The agricultural population in Germany consists principally of small farm owners. A man is called a farmer whose land may be so small that he and his family have to work on larger farms in order to make a living. Of this kind of rural holdings there are 1,262,230 which are smaller than a half-acre in size.

But the German owns his land which he tills when he is not employed as a farm laborer on a larger farm. He, therefore, is possessed of certain property rights which

give him a settled abode and an interest in the land itself which he cultivates. Though he and his family may go out to do day labor on another's farm, he is still a landowner and is classed as a farmer. The number and size of farm holdings in Germany in 1913 were as follows:

Size	*Number*
Under ½ acre	1,262,230
From ½ acre to 5 acres	2,116,279
From 5 to 12½ acres	1,006,277
From 12½ to 50 acres	1,065,539
From 50 to 250 acres	262,191
From 250 to 2,500 acres	23,197
Larger than 2,500 acres	369
Total holdings	5,736,082

Thus, of the total of 5,736,082 farm holdings, no less than 4,384,786 are under 12½ acres in size, 5,450,325 farms do not exceed 50 acres, and only 285,757 farms range from 50 to more than 2,500 acres in size.

What is true of Germany as to the size and number of farms is practically true of all other European countries. In Belgium, for example, the farm lands are even more subdivided than in Germany, except those under 2½ acres in size. For the year 1909, the farm properties of 2½ acres and more in size were classified according to their acreage in the order indicated in the following table:

Size	*Number*
Below 2½ acres	10,736
From 2½ to 5 acres	90,431
From 5 to 7½ acres	51,535

Size	*Number*
From 7½ to 10 acres	32,270
From 10 to 12½ acres	21,677
From 12½ to 17½ acres	28,486
From 17½ to 25 acres	24,147
From 25 to 37½ acres	18,877
From 37½ to 50 acres	8,217
From 50 to 75 acres	6,960
From 75 to 100 acres	2,727
From 100 to 125 acres	1,330
From 125 to 250 acres	2,300
From 250 to 375 acres	423
Above 375 acres	102
Total holdings	300,218

This table shows the extreme division of cultivated land in Belgium. This division becomes even more remarkable when we consider some provinces individually. In Eastern Flanders, for example, more than 40 per cent of the cultivated area is occupied by farms of less than 12½ acres.

It is evident, therefore, that the larger number of farms in European countries are small as compared with the average American farm of 138 acres, so that the farming population are brought much closer together than in this country. Moreover, the population of Europe as a whole is much more dense than it is in the United States. Germany, for example, which is about one-third larger than the State of California, has a population of more than 66,000,000 which increases at about 1,000,000 inhabitants a year. The population of Germany numbers about 320 to the square mile, while in the United States it is 31 to the square mile.

COMMUNITY FARM LIFE

On account of the small size of farms and the density of the population, there has grown up in European countries a peculiar rural community life. The farmers almost wholly dwell in villages, some of them containing thousands of inhabitants, from which they depart in the morning to work on their separate farms and return at evening. Some of these farm centers are as large as cities. In Sicily there are places with a population of about 40,000 consisting almost entirely of men who work on farms as laborers. This type of community farm life, therefore, is in marked contrast with the isolated farm life in the United States and Canada.

After the evening meal there is abundant opportunity for sociability and good fellowship in the public house or in the village hall. The farmers are all of the same race, speaking the same language and having the same traits and customs. They know one another in every district; they know each other's traits of character and habits of work; they are bound together by the common ties of blood, of labor, and of community life.

The conditions of European farm life are especially adapted to local organizations along the lines of coöperative purchase of supplies, sale of produce, insurance and finance. The small size of farms often renders the need of organization imperative in order that the individual farmer may save himself from exploitation. Under the best of circumstances, the average small farmer has no easy task to meet the ordinary economic needs of life. To accomplish this very often means long hours of labor

in the field for every member of the family. To maintain an efficient and proper standard of life, it is essential for the small farmer to be protected, or to protect himself, not only against losses which may come because of the nature of farming, but also from all those who would prey upon his industry. He must buy his supplies as cheaply as possible and sell his products to the best advantage. If he must borrow money to enlarge his field of labor with a view of increasing his net income, it is important that he secure the loan at as low a rate of interest as possible. If there is any risk of loss in his enlarged industry, such as in the raising or fattening of cattle for market, he realizes the advantage of being insured. The need and power of organization would readily be felt by communities of small farmers and their conditions of life especially fit them for coöperative organization.

THE RISE OF COÖPERATIVE RURAL CREDIT

Where a system of small farms prevails, the owners are liable to fall into the hands of usurers sooner or later. This is due to the risks attending their business and to the irregularity of money income from the sale of farm produce from year to year.

The small farmer is not usually possessed of ready money. The returns from farming are very uncertain owing to the perils of harvesting, the prevalence of plant diseases, the extreme perishability of many forms of produce such as small fruits, dairy produce, poultry, eggs, and the like, and many other reasons. Certain supplies he must have, such as seed, fertilizers, feeding stuffs, and implements, in order to carry on his industry. If he has not the money

nor the materials to conduct farming, he must borrow the money, get store credit, or go out of business. Standing alone and under the pressure of necessity, the small farmer is in no position to hold out against high interest charges or exorbitant prices for supplies. He is at the mercy of money lender and supply dealer, and he frequently becomes the victim of one or both.

This was the case in Europe less than a century ago. The small cultivator had been plunged into a bondage of debt by borrowing of the money lender at ruinous rates of interest, sometimes as high as 100 per cent. From this condition there was no prospect of his freeing himself so long as he stood alone.

Unfortunately, this was not his worst plight. The storekeeper in the village or at the crossroads, who supplied him on credit with seeds, fertilizers, household goods, feeding stuffs, implements, and so on, was able to establish a more complete control over the farmer's business than the money lender. Once well in debt to the storekeeper, the farmer without money soon becomes his creature and not infrequently becomes his victim also in due time. The farmer must buy only from the creditor storekeeper and must take without question the goods offered him whatever may be their quality or their price. His debt in bad seasons grows and the bonds of his servitude are drawn tighter. If his small farm is worth acquiring, the owner's liability is allowed to increase up to the point at which his security is exhausted, and his farm then passes into the hands of the money lender or the storekeeper by private contract or by public sale. If at any stage in the process of ruin the farmer ventures to object to the high

interest rates or to the poor quality and high price of his purchased store necessities, the threat of a sheriff's writ is usually sufficient to keep him quiet until his financial ruin is complete.

It was the witnessing of just such scenes and the almost total paralysis of the farming industry in Germany which gave rise to the personal credit plans of a philanthropist about the middle of the last century.

Frederick William Raiffeisen was born in 1818, in the Rheinprovinz, and the rural credit unions he later formed are known as Raiffeisen banks. During the famine years of 1846 and 1847, he was an eyewitness of the fearful sufferings of the peasant farmers and of the intolerable exactions of money lenders. The distresses of the poor farmers appealed to his sympathies and he formulated plans to improve their condition. He first gathered sufficient funds to establish a coöperative bakery where the peasants were enabled to purchase bread at about half the regular price. Raiffeisen next established a coöperative cattle-purchasing society and this organization likewise proved highly successful. Finally, he established at Flammersfeld his first coöperative loan bank in 1849, with a capital of $1,500. This bank offered to lend money at a low rate of interest to the farmers who would comply with its rules. Success attended Raiffeisen's efforts at Flammersfeld, and in 1854 he established a second bank in the district of Heddesdorf. The rural credit movement, thus begun, grew very slowly, for the third bank was not established until 1862 and the fourth not until 1882, or twenty years later.

But from these small beginnings the Raiffeisen coöper-

ative rural credit movement has spread all over Europe. In Germany alone there were 13,736 rural credit societies belonging to the Imperial Federation at Darmstadt on January 1, 1913; while the total number in the empire is nearly 17,000. The movement began in Austria in 1886, and more than 8,000 Raiffeisen rural credit unions exist there at the present time. In Italy there are more than 2,000 rural credit banks organized on the Raiffeisen system. The farmers in other European countries have united to form similar societies and the movement is rapidly growing.

PRINCIPLES OF A RAIFFEISEN RURAL BANK

As we have previously stated, the European farmers are brought closely together by the small size of their farms and by their manner of living in villages rather than on isolated farms. Such groups of farmers are readily formed into local credit societies. The economic condition of the farmers is very similar. They possess some land and chattels, but have little ready money.

In the case of societies organized on the Raiffeisen system, the members are usually the owners of small or medium-size farms ranging from 2½ to 40 acres. While these banks are strictly rural, persons other than farmers living in the country, such as small tradesmen, may become members. This class of members helps materially toward furnishing the capital to run the bank by means of their deposits.

At certain seasons of the year, especially in spring and fall, the need of a loan by these small farmers is very pressing, and the local mutual credit banks are formed for the

purpose of making such loans. The loans are generally made on personal security—on one, two, or three-name notes—for periods ranging from 90 days to 3 years according to the object for which the loan is granted. Loans for shorter periods are usually granted to farmers who want money only to enable them to run their farms from year to year; while the loans for longer periods are made to farm owners who want to make permanent improvements, such as putting up new buildings, for irrigation, drainage, and the like.

As a general financial principle, loans are not made without some guaranty of repayment. This is known as the security. But where farmers who have little money form a local coöperative society and pool their credit, the society becomes the unit and not the individual members. Hence, the Raiffeisen rural mutual credit banks are based upon certain clearly defined principles which seem essential for providing the security necessary for the protection of loans made to members. These principles are as follows:

1. The unlimited liability of all members for all indebtedness of their particular society.

2. There are admitted as members the residents of a single district only, if that is sufficiently populated to make the society self-supporting. For this reason, no farmer can be a member of more than one society.

3. No entrance fee is collected of members.

4. So far as the law of the land permits, no shares of stock are issued. But, wherever the law makes shares obligatory, a member's holding is limited to one share which must be of small value—from $2 to $10 a share.

If a dividend is declared on such shares, the dividend must not exceed the rate of interest charged upon loans.

5. The only paid officer of the bank is the secretary-treasurer. It is his duty to keep the accounts and handle the money.

6. All profit is carried to a common fund, called the reserve fund, which belongs to the society as a whole. This common fund can never be divided among the members, not even if the society should be disbanded. If that take place, the reserve fund is devoted to some public or charitable purpose.

The aim of the Raiffeisen credit societies is to improve both the material and moral condition of their members. The credit granted to members may be in the form of a money loan or in providing necessary supplies for the farm, such as seed, fertilizers, implements or live-stock. The task which these credit societies set themselves is to provide the money required for loans and for the purchase of supplies which are sold on credit to members. They seek to aid those who are financially weak rather than to make profits. The foundation upon which they rest is that of Christianity and national loyalty. A standing rule at society meetings is that neither denominational nor political subjects shall be discussed.

Moreover, these Raiffeisen rural credit societies are not allowed to engage in any speculative business whatever. Money loans and credit are granted to members only on personal security and for objects held to be prospectively profitable.

Adequate security must be provided for every loan or credit granted. In the case of loans, the time of repayment

is fixed in advance; though renewals are allowed up to a period of one year on loans for three months or six months. The length of time and the amount of the installments for repayment are in every case proportioned to the object of the loan and the anticipated ability of the borrower to repay within a given time. No loan is granted without careful consideration by a committee of members of the object for which it is asked and of the likelihood of the enterprise returning a profit to the borrower.

On the other hand, borrowers are entitled to repay at any time. Thus everything is done out of consideration for the welfare and protection of the debtor. Under certain contingencies the rural credit banks reserve to themselves the right of calling in a loan. But this right has seldom been exercised.

Unlimited liability in Raiffeisen societies

The principle of unlimited liability of all members for all indebtedness of their society is based on the personal integrity of the members as honest men. In communities with narrow limits, the risks are not great as all members are personally known to each other.

Collective or unlimited liability means, then, that each member is liable with all his goods for a debt owing to any creditor by a member of the bank, and that, if this debt is not paid, it is divided equally among all the members. For example:

Suppose a rural bank with 100 members owes a creditor the sum of $1,000. He can make any one of these 100 members pay this debt. If the real debtor is incapable of paying the whole amount, the creditor can compel other

members to pay the balance. By law each member can be made to pay his share of the debt only; but, if one of the members finds it impossible to pay his share—which would be $10—the other 99 members would each have to pay ten cents more.

While unlimited liability, therefore, would seem to present some danger for the members, experience in Europe has demonstrated in an unanswerable way that there is no danger in undertaking liability with all one's property for the debts of a Raiffeisen bank. The general testimony of bank officials and economic experts is that seldom, if ever, has a member lost a cent by reason of his assuming unlimited liability.

The explanation of this remarkable circumstance is to be found in the actual organization of Raiffeisen rural credit banks. First, the members of the committee of management, as well as the council of supervision, are chosen from among the residents of the district who are the best off financially. They feel that it is a good thing to act in this capacity so as to inspire confidence. The welfare of the farmers and the district is the chief consideration with these officials who receive no compensation for their services.

Moreover, the following clauses are inserted in the rules which are especially designed to reduce the chances of loss to a minimum:

1. The committee of management must pass upon all admission and withdrawal of members; the council of supervision has final control of all of these operations. But the committee of management is generally composed of 5 members and the council of supervision of 6 members,

and it is difficult to believe that 11 members, chosen from those who are best off and responsible with the others for all their goods, would rashly engage in risky speculation, especially since such speculation could in no way bring them any profit. So that, as they have everything to lose and nothing to gain by acting thus, they would scarcely undertake risky business.

2. The bank only lends to its own members, and only accepts as members the residents of the parish where it is established. All business, therefore, is conducted between persons who know one another personally.

3. The general assembly, composed of all the members, fixes the maximum sum to which debts may amount. When this sum is reached, the bank accepts no more deposits. This assembly also determines the maximum sum that will be loaned to a member, which seldom exceeds $400.

4. The borrower must deserve the credit which is granted to him. Moreover, it must be applied in some productive undertaking which will return the loan with interest and a profit for his labor. Before receiving the money he must state for what work it is intended, and he is watched to see that the loan is applied to this purpose.

5. Each borrower must give some security, either a guarantor, an agricultural warrant covering farm produce, or a mortgage on his furniture or land.

6. Every undertaking which is evidently risky is forbidden on the personal responsibility of the committee of management.

7. The council of supervision is obliged every three months to examine all transactions of the bank during

that time. If in any case the probability of a loss is foreseen, the society reserves the right to demand the repayment of the loan on four weeks' notice.

8. The annual profits are placed in the reserve fund as a security against loss.

With such strict rules and such minute precautions, losses are hardly possible, so that there is only an imaginary danger in becoming a member of a Raiffeisen credit society with unlimited liability.

In a word, therefore, these banks merely provide a method by which members indorse each other's borrowings to the full extent of their own assets. Since the members are brought together from a restricted area, the total population of which is seldom less than 400 or more than 2,000, the expectation is that notoriously improvident and irresponsible persons will not be admitted to membership. For these reasons, therefore, the danger of loss through unlimited liability is reduced to the minimum.

Coöperative supply societies

As has been stated, in addition to supplying members with money, many Raiffeisen societies engage in the collective purchase of farm necessaries, such as fertilizers, feeding stuffs, seeds, implements, and the like, which are sold to the members on credit. The nature of agriculture as an industry makes this form of credit almost as valuable to the farmer as being supplied with ready money or credits on current account at the rural bank. The dates of the heaviest expenses and returns from farming hardly ever coincide. The chief returns take place in the autumn and

winter when the staple crops are sold. But, in the meantime, expenses of breeding cattle continue, in the spring seed and fertilizers must be procured, machinery and implements must be bought before the harvest, taxes fall due and must be paid, and if help is hired wages cannot go unpaid. When it comes to purchasing necessary supplies, the unorganized farmer must either buy of the merchant on credit at high prices or fail to purchase at all—both very unprofitable courses.

A good farmer in Europe becomes a member of a coöperative supply society in order to secure a high grade of goods on credit as cheaply as possible which insures his getting all the profits possible. The credit societies are not only banks to lend money, but are also savings banks. They take charge of the surplus cash of rural communities in order to invest it in such a way that it shall benefit agriculture. This is mainly done by means of coöperative supply societies.

After the rural banks, the supply societies are the most important personal-credit institutions for farmers in Europe. These societies confine themselves almost exclusively to supplying their members with fertilizers, feeding stuffs, seeds, farm implements and machinery, coal, and other miscellaneous articles. Through coöperation in this direction, considerable benefit has accrued to farmers. The guaranty of good quality is assured, the prices are much lower than if bought in small quantities of merchants, and the members are frequently granted necessary requisites on credit. Moreover, the supply societies exercise a considerable educational influence. They have promoted among farmers information on the

use of suitable fertilizers, seeds, feeding stuffs, implements, and so on. The habit of inquiring about the quality of goods is fostered and the necessity of quality is brought home to their minds. The widespread practice of requiring orders in advance, together with the insistence upon cash or short-time payments, exercises an influence in the direction of improving business habits among the rural population.

CHAPTER II

PERSONAL CREDIT FOR THE LANDOWNING FARMER—THE RURAL BANKS IN PARTICULAR

HAVING traversed the subject of financing the landed farmer in a general way, we may now consider more in detail some of the principles and practices involved in the actual working of rural banks.

RURAL BANKING AND BANK BUILDINGS

The development of rural banks and banking varies with the economic condition of the population, the number of members who belong to a local credit society, the relative size of farms, and the financial requirements of farmers for conducting their business. Not every local rural credit society is able to run a bank in a strict sense of the term. Some of the arrangements for making loans to members and for managing the society's business are of the simplest kind.

The evolution of banking practices and of bank buildings follows closely the educational development of the rural population. In certain instances the credit society has such a small membership and the economic and financial status of its members is so poor that the officers all serve gratuitously. While the farmers are poor, the community spirit is rich. The aim is to help one another.

The so-called "rural bank" may have no building, nor even a rented room, in which to conduct a loan business with its members. The cashier may be allowed house-rent free, with a small salary of a few dollars a year in payment for his services as secretary, clerk and cashier in one and for the use of a room in the house for conducting the society's savings and loan business. Also, a single room in a member's house may serve as the simplest kind of coöperative store and for carrying on the most primitive kind of money lending. The sums deposited by members, on which interest of 2 or 3 per cent is paid, may be as low as ten cents and seldom exceed a few dollars. The sums loaned to farmers in poor districts may be as low as five dollars and not often greater than twenty-five dollars. But all these transactions are conducted on strict business principles, so that the poorest farmers are thereby given their first lessons in banking practices. This is a very valuable educational feature of the crudest forms of local rural credit banks in European countries.

In more densely populated districts, where the credit societies have a much larger and more prosperous membership, the bank proper may consist of a rented room in the local town hall or an ordinary store. In such cases the furniture usually consists of a large table for the use of the directors, ten or a dozen chairs, a desk of some kind for notes, stationery, books, and similar property. Local credit banks may or may not own a safe, depending upon the amount of the notes they carry and the amount of their cash deposits. The notes and funds may be kept in a wallet by the treasurer or president of the society. The

whole banking system in such communities is based upon mutual help and confidence in each other's honesty.

The most prosperous rural banks and coöperative supply societies own their own buildings and fixtures. Loans to farmers are made in larger sums and the extent of business conducted requires a staff of bank officials and clerks and of store employees. The expenses are met from the profits of the business, though every effort is made to reduce the cost of running the bank or store to the minimum possible consistent with efficiency in behalf of the patrons. If any profits remain after all expenses have been paid, they are usually added to a reserve fund which belongs to the local rural bank or coöperative supply society as a whole.

CENTRAL RURAL BANKS

But neither the local rural credit banks nor supply societies would be able to satisfy fully the requirements of their members, if they had to depend on local means alone. Both kinds of institution can fulfill their purposes best by affiliating with a central organization which is able to assume and maintain its position among financial institutions by means of its larger capital and expert business management. Therefore, it has always been one of the chief objects of the Raiffeisen system to establish central societies for lending money and supplying goods.

The connection with the central society is especially necessary for the rural credit banks, because it frequently happens, especially at first, that their capital is not sufficient to meet the credit and cash requirements of their

members. The local rural banks, therefore, are often obliged to borrow money. This they can best do from a central coöperative bank, which, in its position as a wholesale banking house, is able to take advantage of the most favorable periods on the money market.

Historically considered, the particular point to which greatest importance was attached in fixing a sphere for the operations of a rural bank being that of the smallness of the district, the necessity of providing for collective action and a means of insuring that there should be money on hand when needed very soon became manifest. Accordingly, after various unsuccessful attempts, Raiffeisen formed the Rhenish Agricultural Coöperative Bank at Neuwied in 1872. Similar banks were also established in Hesse and Westphalia. In 1874 Raiffeisen formed, in connection with the Mutual Life Insurance Company of Arminia, the German Agricultural General Bank as the apex to the three coöperative rural banks. On account of unforeseen difficulties, this organization proved unworkable. Finally, in 1876, Raiffeisen proceeded to establish as a joint-stock company the Agricultural Central Loan Bank for Germany with headquarters at Neuwied. That institution exists to-day, but its headquarters were removed to Berlin in 1909. The management and objects of this bank may be taken as typical of the operation of central rural banks in the different countries of Europe.

The Agricultural Central Loan Bank does business with about 5,000 local rural banks. This business is conducted by means of branch banks which have been established in almost every province and located in some

principal city. This was done in order to facilitate the business conducted between the central bank and the local rural banks and to keep in closer touch with their operations and needs.

The central bank acts as a medium between the different local banks in transferring unused funds from places where there is a surplus to localities where the demand for money is greater than the supply. Also, when local banks need greater assistance than their combined resources can meet, the central bank is in a position to borrow money from outside sources. About $5,000,000 has been borrowed in this way and reloaned to the local banks.

The central bank exercises supervisory authority over the rural banks and refuses those credit which do not conform to established rules for the safe and careful conduct of business. The limit of credit usually granted is 10 per cent of the combined assessed valuation of the property of the members of any particular local bank.

The central bank is owned by the local banks, since each one owns from one to five shares of stock at $200 a share. The central bank is thus made a joint-stock bank.

For borrowed money the central bank has to pay not less than 4½ per cent interest, and it charges the local banks three-fourths of 1 per cent higher rate of interest than it is required to pay. In addition, a charge of one-tenth of 1 per cent of the total loans to each local bank made during the year is exacted at the end of each year. These charges defray all expenses of operating the central bank and provide for a reserve fund and a reasonable dividend.

An inspector is employed by the central bank and kept

in the field to examine into the condition of the local banks. This examiner is under bond and, in case of loss on the part of any local bank because of his failure to do his duty, his bondsman is required to make good the loss.

More specifically, the objects and transactions of the central bank are as follows:

The Agricultural Central Loan Bank for Germany aims (1) To carry on banking and credit business, more particularly as a means of equalizing temporary shortness or oversupply of money in local banks; (2) to provide for the collective purchase of farm requirements. The latter is performed through seven distinct organizations, each operating within its own particular district.

The share capital raised for the bank's purposes at the time of its formation was more than $60,000; in 1913 it was $2,500,000. The shares are for $200 each and are made out to the holder by name. They are accordingly not purchasable on the market. Shares, however, may be transferred with the approval of the council of supervision of the bank.

The power to acquire shares is limited (1) To individual members of the bank's committee of management and council of supervision; and (2) to local credit societies which adopt in their rules and regulations the Raiffeisen principles, and which conduct business and keep their books in accordance with the rules and regulations of the General Union of Rural Coöperative Societies for Germany.

The funds required for the business of the bank are provided in the following ways: (1) By the issue of shares; (2) by deposits received and loans secured; (3) by commis-

sions charged and a margin of profit on business transacted; (4) by profits on the dealing in farm requisites; and (5) by the issue of debentures running for indefinite periods.

The funds so raised are applied in the following ways: (1) In credits given in current account to local rural banks, coöperative societies, central banks formed for particular countries or provinces, and central business organizations for coöperative societies; (2) for carrying on the business in dealing in farm requisites; (3) for discounting acceptances and making advances on approved securities in conformity with the practice of the Imperial Bank; and (4) for any other purpose in harmony with the general objects of the bank.

The net profits realized are applied (1) To the accumulation of a reserve fund; and (2) to the payment of dividends on shares, which must never exceed 4 per cent a year.

Business with local rural banks and coöperative societies is carried on through the medium of the bank's branch offices, of which there are 12 situated in the largest cities of Germany.

To permit of the fixing of the credit limit of local societies, they have to submit proof of their possession of property, giving the following particulars: (1) In countries in which a property tax is levied, a list of their members showing the total amount of property tax to which they are assessed; (2) in other countries a list of members and estimates made by the committee of management and the council of supervision of each society as to the amount of property possessed by each member.

The maximum credit limit for each local bank is fixed by the committee of management of the central bank; in

exceptional cases it is fixed by the council of supervision. Generally speaking the limit is this: (1) In societies returning assessments for property tax, 10 per cent of the value so returned; and (2) in societies in those parts of the country where there is no property tax, 5 per cent of the valuation of property determined by the committee of management of the local bank. No society is entitled to claim a credit as a matter of right; and the central bank also reserves to itself the right to call in a credit that has been granted at any time.

The data required to establish a maximum limit of credit must be submitted to the central bank once in every three years. In special cases, they must be submitted at any time on demand.

The business transactions as between the central bank and its branch offices are as follows: Should the funds collected by a branch office in its locality prove insufficient for its daily requirements, it has to apply to the central bank for the balance needed. Such amount is furnished either in cash out of the balance on hand, or else by a draft on the Imperial Bank of Germany. Surplus funds held by branch offices are in like manner paid into the central bank. Each branch office is required to send in to the central bank every week a statement of its transactions and cash holdings, and every month a full statement showing the complete condition of its business. By such means the central bank is enabled to exercise a steady and effective control over the branches. In addition each branch office is subjected to a rigid inspection once every year which is conducted by a committee named by the council of supervision of the central bank in con-

junction with the chief inspector of the coöperative union.

In this manner, the Agricultural Central Loan Bank for Germany has been enabled to retain its genuinely coöperative character in spite of its formation as a joint-stock company. It transacts business in its wider sphere practically on the same coöperative lines as the local credit banks do on a smaller scale. The fact of its being registered as a joint-stock company facilitates its business with the money market and, through its share capital, provides for itself a working fund which cannot be affected by any changes occurring which influence local banks. By keeping the money transactions with rural banks in its own hands, it is in a position to charge lower rates to these banks than they could secure by dealing with independent commercial or provincial banks. Moreover, by means of its branch offices, the central bank secures the information regarding the financial status of local rural banks which is required for the proper apportionment of credit. It is, therefore, a central bank which is based entirely upon self-help and self-government and combines in itself all the advantages both of a centralized and a decentralized clearing house for money.

SAVINGS BANK FUNDS FOR FARMERS

In addition to the strictly rural credit banks which furnish money and supplies to their members, there are many other savings banks which have special departments for the purpose of making loans to farmers. These are generally known throughout Europe as "people's banks," since they originated in cities as a means of encouraging

saving and thrift among the working people of the industrial and lower classes. By means of paid-up share capital, surplus funds, and savings deposits, many of these people's banks accumulated a large working capital, and when these funds exceeded the demand of the bank's members for loans, outside sources for investment were sought. Hence these banks extended their field of membership to include the rural population.

In Germany, where this type of bank is known as Schulze-Delitzsch banks, the membership for 1911 shows that 26.61 per cent are classed as independent farmers and 2.42 per cent as wage-earning farmers. At the present time, therefore, probably over one-fourth of their members are farmers notwithstanding their urban origin. One of the recognized purposes of these banks is to conduct a savings-bank business and put such savings to the most productive use in rural districts.

On account of their urban origin and extended area of operation, which often covers a whole county, the occupation of members ranges over a great variety of callings and the membership is quite large. For this reason, it would be impossible for any one member to know any large number of the other members. Consequently, there has developed a difference in the personal liability of the members. In Germany in 1911, out of 952 banks of this type which reported, 563, or 59.1 per cent, were of the unlimited liability type, while 385, or 40.5 per cent, had limited liability, and 4 others were of a special mixed type having unlimited liability to make supplementary payments. In Austria, out of 3,599 banks of this type reporting in 1912, only 603 had unlimited lia-

bility while 2,996 had adopted the principle of limited liability.

The general tendency of the people's banks, therefore, is plainly toward limited liability. Nevertheless, although this plan is steadily increasing, unlimited liability is still considered the better system on which to establish these popular banks in districts which are not yet familiar with coöperative credit. The system of unlimited liability seems to work particularly well when the societies are just beginning and while the membership is small and the members acquainted with each other.

The principles and policies of these popular banks, especially in their dealings with rural communities, follow very closely those of Raiffeisen rural credit banks. They are operated on strictly democratic principles. Each member has one vote only, no matter how many shares he may hold. Moreover, the shares are strictly personal, and no shareholder can hold more than one thousand dollars' worth of shares. The result is that the shares of the people's banks are entirely removed from the sphere of speculation. The administrators are selected by the shareholders and in nearly all cases give their services gratuitously. The work of this board is supervised by a board of revisers who also audit the accounts and become personally responsible to the shareholders. Every year a balance sheet is published and submitted to the general assembly of the shareholders who thus exercise a control over the administrators and auditors of the people's banks. The profits of the banks are mostly added to the reserve fund which becomes the absolute guaranty of the savings deposits they receive. The

people's banks enjoy a very superior credit as a result of this policy.

The people's banks deal with individual farmers and agricultural associations. With individuals loans are granted on indorsed notes in the absence of collateral. The people's banks also give credit accounts to farmers. Another form in which they come to the assistance of farmers is the following: Many farmers have a great objection to signing a promissory note. In order to facilitate matters, however, the people's banks will accept from the agricultural associations the invoices for goods delivered to the farmers and signed by them. In very small districts they will even accept invoices for goods if unsigned by the man to whom the goods have been delivered, because the value of the goods is known as well as the character of the people who deal with the associations. Hence they do not hesitate to give this form of credit.

To the agricultural associations, the people's banks not only give open accounts for general purposes to be used at their discretion, but they also give lines of credit for special purposes, such as the purchase of seeds, live stock, and general farm requirements. These special open accounts are settled when the agricultural associations have made their settlement with the farmers.

Still another form in which the people's banks come to the assistance of farmers is that of assisting the small rural Raiffeisen banks. These small banks frequently would not be able to carry on their work for the farmers if they were not able to discount their notes with the people's banks. The latter are so organized that they are able to get into intimate touch with the rural banks and

are thus able safely to discount their notes. In this connection, the people's banks serve the purpose of a central Raiffeisen bank.

The granting of short-time credit to individual farmers is usually by means of notes indorsed by two signatures. When an invoice for goods is accepted, it is regarded as a note with one indorsement. That is to say, the invoice is signed by the agricultural association with the signature of the farmer who purchased the goods. Thus the farmer is responsible to the association and the latter to the people's bank. Invoices for goods usually run from three to six months.

Loans on notes indorsed by two signatures usually run for a period of six months, renewable for another period of six months; but at the expiration of this second period the loan must be paid. These short-time loans are made for the purchase of seeds and fertilizers. In order to get such a loan, the borrower must first obtain a certificate from the agricultural association of which he is a member guaranteeing that the loan will really be used for that purpose. When loans are made for the purchase of seeds or fertilizers, the rate of interest charged by some banks is as low as 2 per cent; when made for other agricultural purposes the rate is 3 per cent. The local banks which discount these notes are allowed to charge an extra 1 per cent on the 2-per-cent loans and an extra one-half per cent on the 3-per-cent loans, thus raising the interest rates, respectively, to 3 and 3½ per cent. Lately in Italy, so as to insure these facilities being used by small farmers, the maximum amount of loan allowed to each farmer on these notes has been fixed at $400. The rate of interest

was also uniformly fixed at 2¾ per cent to the local rural banks on the condition that the banks that indorsed the notes and discounted them should charge a maximum rate of interest of 3½ per cent only.

All the credit granted under these heads by the people's banks through the local banks is allowed only when a voucher is produced from the agricultural association certifying that the loan will be used for agricultural purposes. The people's bank also grants open accounts—lines of credit—to agricultural associations at 3½ per cent interest, but these accounts must be guaranteed by the signature of the association and by other acceptable signatures.

In the Schulze-Delitzsch system of people's banks in Germany, the interest charged on loans ranges from 4 to 5 per cent. These banks paid interest on deposits which was usually from one-quarter to one-half per cent more than the interest paid by ordinary savings banks. The security enjoyed by depositors in these banks is based upon the unlimited liability feature of 92 per cent of all banks, a common knowledge as to the standing of the members, the control of each society by its own council of supervision, and the audit of accounts by outside accountants working under the direction of the central bank.

The difference between a commercial bank and the people's banks in Italy is that the former obtains its capital from the shares subscribed by shareholders, while the latter are endowed by communes, provinces, and benefactors' foundations. People's banks thus founded have no dividends to distribute and they are thus enabled to make

loans at lower rates than regular savings banks. They pay a rather lower rate of interest on deposits than they charge for loans; yet the small difference between these two rates of interest has enabled them to accumulate large reserve funds which help them to carry on their work.

In central and southern Italy, where coöperative live-stock insurance societies are being rapidly formed, there is a strong tendency to connect them with those rural credit banks which assist farmers to purchase live stock. In this way the insurance policy serves as a guaranty for the loan advanced for the purchase of the live stock. To facilitate control, all animals insured are marked so that they can be recognized.

While in most countries the rural and people's banks are subject to government inspection in one form or another, still the real and effective control after all is that exercised by their own officers.

MODIFICATION OF THE RAIFFEISEN SYSTEM

Not all farmers in Europe are inclined to organize themselves into unlimited liability societies in order to improve their credit conditions. There is a tendency in some countries to accept limited liability of the members for the debts of the society as well as to make other material changes in organization. This is the case as regards both rural banks and credit supply associations whether these organizations have been promoted by the farmers themselves or encouraged by the government, and the modifications of Raiffeisen principles have been made in order to meet different conditions in various countries. The most important of these modifications are worth noting as a

guide to farmers in other countries who may hesitate to adopt the principle of unlimited liability and who may desire to organize on a slightly different basis.

In Italy special legislation was enacted in 1884 to encourage the formation of rural coöperative associations, and under this impulse they have become very powerful organizations. These societies come under special provisions of the commercial code. Most of these societies are based on the limited liability of the members, though a few of them have elected to organize as unlimited liability associations on much the same principles as the Raiffeisen rural credit banks. The shares they issue are of small value, ranging from $2 to $10. They count among their members all classes of farmers, both large and small, who by their rules are only responsible for the liabilities of the association to the extent of the value of the shares they hold. No member may hold shares to a value exceeding $1,000, and no share may exceed a value of $20. The shares are personal, unnegotiable, and only transferable by the express consent of the general assembly and the officials of the associations.

The prime purpose of these agricultural coöperative associations is the collective purchase of farm requirements. They also undertake to test machinery, seeds, fertilizers, and so on, which they sell to members, and in this way they effectively promote the development of agriculture. They also assist their members in the purchase of farm supplies by granting them credit on easy terms.

The form most generally adopted by these coöperative associations is that by which the members receive the

goods they order partly on credit. But in order to afford their members credit on their purchases, the associations have to obtain money which they generally raise by means of promissory notes. These are discounted for the associations by the central credit bank.

Another form of credit open to well-established coöperative supply associations is that of a current account with a central credit bank. This is granted to each association to the extent of $40,000. Many of these associations also accept from their members promissory notes for their unpaid accounts, and these notes are discounted by the credit bank with which the association does business.

Credit is also given by accepting from the purchaser the signed invoice for the goods which he has not paid for, this invoice being indorsed by the association and the money secured on it from the central credit bank.

In the north of Italy it is generally the savings banks and the people's banks which give open accounts to the associations. In central and southern Italy, special legislation provides credit for them on better terms than they could obtain on the open market. In Umbria, for example, there are special institutions for providing these associations with credit; in southern Italy and in Sardinia, the Bank of Naples has been authorized by special legislation to devote a portion of its reserve fund for granting rural credit, and the Bank of Sicily has been authorized to do likewise.

The rate of interest charged by these different institutions varies greatly. The savings banks and the people's banks of northern Italy charge a rate varying from 5 to 7 per cent corresponding closely to the rate of discount

of the Bank of Italy. But in central and southern Italy and in the islands which come under special legislative provisions, the rate of interest charged is as low as 3½ per cent and must not exceed 4 per cent. The time allowed is from six months to one year. The guaranty is regulated by special legislative provisions. The loans are guaranteed sometimes on the farmer's crops and sometimes by chattel security or land mortgage.

There are about 1,500 of these coöperative supply associations of different types in Italy. Some are very small and work within a very limited area of operation; but others are quite large and do a business to a value of over $600,000 a year. In Sicily the supply associations are not organized as separate societies; their work is done by the local rural credit banks and their business grows with the progress of the banks.

About 700 of these agricultural coöperative supply associations are united with the federation at Piacenza, which has branch offices in Rome, Naples, and Catania in Sicily. An idea of the activity of these associations can be obtained by an examination of the statistics of the federation. In 1909 there were 650 associations belonging to the federation, with 125,000 members, and a capital and reserve fund amounting to $2,600,000. The business done during that year amounted to $16,000,000. As the number of federated associations has since increased to more than 700, on this basis they are now supplying the farmers with machinery, seeds, fertilizers, and other farm requirements, partly for cash and partly on credit, to a value of over $20,000,000 a year.

This federation was founded in 1892. As a rule the

credit granted to the supply associations is short-time credit, that is from six months to a year; but in the south of Italy credit is extended to as long as two or three years.

In Hungary, the government took an interest in organizing coöperative credit banks and a central bank, and in so doing modified to some extent the Raiffeisen principles. An act was passed in 1898 which provided that certain favors would be granted to those rural credit banks that should be organized in conformity to the strict rules prescribed by the law. Moreover, by means of government aid, a national central credit bank was established for the benefit of the rural credit banks, the task of the central bank being to control, direct, and supply with necessary capital the credit banks founded and operated in conformity with the law. The most essential provisions of the act are as follows:

Agricultural coöperative credit banks organized under the law may only be founded by administrative local government authorities; by public corporations such as agricultural associations, chambers of commerce and industry, and industrial corporations; or, finally, by the Hungarian Central Coöperative Credit Society, an institution under government subsidy.

The sphere of activity of such credit societies is limited to a particular township or at most to certain clearly-defined districts of restricted area. Each member is bound to subscribe for one share only; but at the general assembly no member is entitled to more than one vote even if he owns several shares. The value of shares must not exceed $20, and not more than 5 per cent dividend may

be paid on said shares. The remuneration paid to directors may not exceed 10 per cent of the net profits, and the remainder of the profits must be added to the reserve fund. Coöperative credit banks may do business with their members only, but they may accept savings deposits from nonmembers. The members are liable for the debts of the credit society up to a sum representing five times the amount of the nominal value of the shares held by them; but this liability can only be enforced in case of the bankruptcy of the society.

Members can withdraw from coöperative credit societies only after six months' notice. In cases of execution or bankruptcy resulting from claims against their own members, coöperative credit societies affiliated with the parent institute have a prior right, as compared with all other creditors, to the whole movable property of the debtors, though only when the claims of such other creditors date from a period subsequent to the debtors' admittance into the credit societies. The rolls of members may be inspected by anyone, and coöperative credit societies are bound to inform everyone who makes a request to that effect as to the total amount of the liabilities of the members. Besides the board of directors, the members of the credit societies must elect a committee of supervision. This committee examines the books and accounts of its society at least once every three months; it may take part in the sittings of the board of directors; it audits the annual financial statement and performs all the duties intrusted by the mercantile law to committees of supervision of limited-liability companies or coöperative societies.

These are the main features of the Hungarian law relating to rural credit banks and supply societies which grant personal or short-time credit to their members. The act did not follow strictly the principles of Raiffeisen rural credit banks, but created a system which, under existing conditions in Hungary, appeared to be the best and which has, as a matter of fact, proved a brilliant success.

While the Hungarian Central Coöperative Credit Society is not a state institution, the national treasury contributed toward its foundation the sum of $250,000. By the law, moreover, the government is granted certain rights over its affairs. The president of the bank is appointed by the king on the recommendation of the minister of finance, and the two vice-presidents are appointed by the ministers of commerce and agriculture, respectively. Moreover, the minister of finance appoints two members of the board of directors and one member of the committee of supervision, and the election of a managing director by the board from among its own members is subject to the confirmation of the minister of finance.

For the purpose of controlling and superintending the management of the central credit bank's affairs, the minister of finance appoints a government commissioner who may protest against any resolutions conflicting with the articles of incorporation, in which case the said resolutions of the board of directors are suspended pending a decision by the minister of finance.

The Hungarian Central Coöperative Credit Society may be regarded as a genuine coöperative society notwithstanding the fact that the system of founders' shares

has been applied in its organization. But the members which constitute the central credit society are the coöperative credit and supply societies affiliated with it. These are bound to subscribe for a certain number of shares in the central bank with a liability of five times the nominal value of the shares held by each society. Through their delegates at general meetings as well as in the elections of the board of directors and the committee of supervision, the coöperative societies exercise a practical control over the central credit society. Moreover, the affiliated societies exert an influence on the spirit and management of the central bank at the annual congress, where questions concerning the whole organization are debated, since the resolutions passed at the annual congress must be discussed by the general meeting of the parent institute. On founder's and ordinary shares, the central bank cannot pay more than 4 per cent dividend.

At the same time, the central bank has authority to inspect the coöperative societies affiliated with it. The central bank also settles the general conditions relating to the business of such societies as well as those concerning savings deposits. The work of inspection and control is carried out as follows:

Not less than twice a year the central bank's inspectors visit the coöperative societies, investigate their methods of doing business, offer advice and give instructions to the managers, and inform the central bank of every movement of said local credit societies. Where necessary, the central bank may ask for a bankruptcy order against any coöperative society or it may have such wound up. In practice, the central bank only enforces the winding up

of such local credit societies which are not capable of maintaining themselves. In certain cases in which it becomes evident in the process of liquidation that not even the fully paid-up shares are sufficient to cover the losses of the respective societies, the central bank, which is usually the sole creditor of the local banks, remits that part of its claims which cannot be met, so as to avoid the necessity of applying for an order in bankruptcy and an enforcement of the liability of the members.

It must be remarked, however, that ever since the establishment of the Hungarian central credit bank there has not been a single instance of a coöperative credit society affiliated with it having become bankrupt, so that no occasion has ever arisen for enforcing the liability of members.

One of the duties of the central bank is to supply the affiliated coöperative credit societies with funds. The money required for this purpose is obtained by the central bank, in addition to its own capital, from the current account deposits, by rediscounting bills drawn on it by the affiliated societies, and by issuing tax-free debentures on the basis of bonds made out by the members of the local credit societies and transferred to the central bank subject to the liability of the said local societies. The right to issue tax-free debentures is granted to the central bank by the act of 1898. But the act, not considering a 5 per cent guaranty fund sufficient security for these debentures, insists on the creation of a guaranty fund of at least 10 per cent; and the government contributed $750,000 toward the creation of a special guaranty fund for the security of these debentures.

Local coöperative credit societies affiliated with the central bank are exempted by the act from the payment of trade taxes on the amount of business transacted, and are also entitled to considerable exemptions as regards stamp and other dues. The central bank enjoys these same privileges as well as exemption from the payment of postage dues, but it is not exempted from stamp dues on drafts and bills of exchange.

The data on the development of the Hungarian Central Coöperative Credit Society show that in 14 years 2,412 local coöperative credit societies had become affiliated with it, and that the amount of credit granted to them by the central society amounted to more than $25,000,000. The activity of the affiliated societies already extends to some 8,000 parishes, or to more than half the parishes in Hungary. This result far surpasses the expectations of the government when it established the central coöperative bank practically as a mere experiment.

CHAPTER III

GOVERNMENT AID FOR PROMOTING PERSONAL CREDIT AMONG LANDOWNING FARMERS

France undoubtedly leads all countries in promoting personal credit among farmers by coöperative rural credit societies. The first step toward the establishment of an agricultural credit system in France was to organize personal credit from below by fixing the roots of the system in the agricultural population itself.

OUTLINE OF THE FRENCH SYSTEM

Formerly, the idea prevailed among French statesmen that agricultural credit could only be established by the formation of great central banks from which credit would flow out to all the local credit centers. But when the government of France finally took up in earnest the question of agricultural credit, it was planned on an entirely different principle. It was decided that rural credit should begin with the lowest group; that the agricultural coöperative society should form its own credit bank which should grow from its own activity. The French system of rural credit, therefore, began with the local coöperative societies; out of these grew the district or departmental banks, which are usually located in the principal town or city of a department; and, finally, there is the central federation of rural credit societies which unite local and

district banks into a single organization. But the development of this system has been from the growth of the small local units. There were in 1913 more than 4,000 local rural credit banks in France and 100 regional or district banks. About 1,000 of the local banks have adopted the principle of unlimited liability, while the other 3,000 or more operate under the principle of limited liability. The French system of Raiffeisen rural credit societies, therefore, differs materially from that of Germany where the local rural banks are chiefly based on the principle of unlimited liability of their members.

The foundation upon which agricultural credit in France is built are the laws of 1894 and 1899 for promoting personal or short-time rural credit. At the time the law of 1894 was proposed, the agricultural societies were already strongly organized and formed a valuable nucleus for establishing a sound rural credit system. The other guiding principle which the French government sought to incorporate in its rural credit system was that of mutual aid. Thus, when the Chamber of Deputies undertook to organize personal rural credit in 1894, the different agricultural coöperative societies were taken as the basis of the system.

Under the law, credit societies in France may organize on the principle of either limited or unlimited liability. If the members choose to organize on the principle of limited liability, all the members are not responsible for a debt which any one of them may have contracted toward the society; but, when organized on the principle of unlimited liability, the entire group becomes responsible for the indebtedness to the society of any one of its members.

The objects of local coöperative societies are to promote, guarantee, facilitate, and meet the agricultural operations and requirements of their members. To accomplish these ends more readily, certain concessions have been granted by the government to these organizations. The law, for example, is simplified to the utmost as regards their formation, and coöperative societies are relieved of taxation.

Thus far, however, the law had created an instrument of credit only without a money discount to correspond therewith. Legally a farmer could make out a bill of exchange, but he was unable to discount that bill for cash. This was not because France did not have plenty of money and plenty of banks for discounting notes. As a matter of fact, the Bank of France maintains a lower rate of discount than is practiced in any other country of Europe, ranging from 3 to 4 per cent. In 1911 the Bank of France did a discounting business of $5,000,000,000, and five other great banks discounted together $900,000,000. Any difficulty which the farmer experienced, therefore, could not be attributed to the lack of money.

But the credit difficulties of the French farmer arose from the nature of his industry. The farmer is a slave of the soil. The land grows his crops, but this requires some time. The average period for which the farmer requires personal credit is about eight months. In 1894 an interest rate of 8 per cent for this length of time was charged by private banks, and this on investigation the French government found was unreasonable and it determined that the farmer should be granted other facilities for discounting his bills. The method proposed was to subsidize

the rural credit banks which were organized to discount farmers' bills.

CREDIT LEGISLATION

Two years after the enactment of the law of 1894, which founded this system of agricultural credit, the charter privilege of the Bank of France expired. What these charter privileges were and how the Bank of France has assisted agriculture will be briefly set forth later on. But the bank's charter privilege was only renewed by the government on two conditions: (1) That the Bank of France would advance to the government the sum of $8,000,000, free of interest, for use in subsidizing the rural credit banks; and (2) that it should pay a yearly sum calculated at one-eighth per cent of its circulation, but not to be less than $400,000, for the same purpose. As a matter of fact, the latter sum has amounted to more than $1,000,000 a year available for agricultural credit.

The law embodying these conditions for renewing the charter privileges of the Bank of France was passed in 1896. It also created a commission composed of senators, representatives of local banks, directors of the Bank of France, and certain other commissioners. In connection with the department of agriculture, this commission was to decide on the distribution of these funds to the regional rural credit banks.

Under its charter the Bank of France is a bank of issue; that is to say, its function is to issue paper money and reimburse it. The bank issues notes either against deposits or on the guarantee of credit operations, but it is prohibited from issuing notes on any other grounds. The repayment

of the $1,000,000,000 worth of notes in circulation is, therefore, guaranteed either in coin or in commercial paper protected by bonds.

The notes guaranteed by coin are not a source of legislative concern, but the notes guaranteed by commercial paper and bonds demand more careful attention. Special care has to be taken to insure the quality of the surety by which these notes are guaranteed.

In the first place, the legislature has determined that the Bank of France must make acceptances for a longer period than three months where such paper forms the security of circulating notes.

In the second place, all notes discounted must be indorsed by three persons of known solvability and who become collectively responsible for the bill. One of these indorsements, however, may be replaced by the deposit of securities with the Bank of France. The power to determine the value of such paper is left to the bank's directors. The indorsement may also be replaced by depositing a warranty of goods.

The original law granting these charter privileges was signed by Napoleon as a part of the statutes of the Bank of France. The object was to make the notes issued by the bank not only safe, but to give them a known security.

RELATION OF CREDIT BANKS IN FRANCE

Now, it is not difficult to see the relation of the local and regional rural credit banks to the Bank of France. The local banks know their members well, with the result that the loans they grant are almost always paid. Thus the local banks guarantee the safety of their loans and pass

on their security to the regional banks. The local banks, therefore, form the first security for loans to local farmers.

The regional banks alone distribute to the local banks the funds placed at the disposal of agricultural credit by the government. This is a highly valuable service, for it would be impossible for the government to have knowledge of more than four thousand local banks and decide how the funds should be distributed, but it is possible for the government to have knowledge of the hundred regional banks.

But the regional banks, besides performing the duty of distributing the government money for credit purposes to the local rural credit banks, fill another and exceedingly important function. They not only discount the bills of the local banks, but they indorse them with their signature. By this means the farmers' notes receive the three signatures which make them available for rediscount by the Bank of France and other great financial institutions. The farmer first indorses his note himself, it is next indorsed by the local credit bank, and finally is indorsed by the regional bank. This is necessary because, as has been pointed out, the Bank of France can only legally rediscount bills indorsed with three signatures. The organization of the regional banks, therefore, has opened the Bank of France to all French farmers through their local rural credit banks.

The amount of money disbursed by these two kinds of credit banks in France proves their importance as a means of financing the farmer. In 1912 the regional banks advanced for personal or short-time credit to farmers $12,000,000 derived from the government through

the Bank of France, and $5,000,000 derived from their net capital, reserves, and deposits. During the few years the regional banks have been established, they have accumulated a reserve fund of $1,000,000. The one hundred regional banks are administered at an annual cost of less than $100,000, which is proof enough of their economy of management.

On the other hand, the 4,000 local rural credit banks have a combined membership of more than 200,000 and in their business transactions make use of a subscribed capital of more than $3,600,000. In 1911 the local banks granted new loans to the extent of $16,500,000, in addition to more than $10,000,000 of outstanding loans brought over from the previous year. The French farmers during the year repaid the rural credit banks $14,500,000, leaving outstanding loans at the close of 1911 of a little more than $12,000,000. It is evident, therefore, that French farmers are well provided with the means of being supplied with personal short-time credit.

HOW THE BANK OF FRANCE AIDS THE FARMER

In its business relations with the agricultural credit banks, the Bank of France has been somewhat limited by the statutes and laws laid down a century or so ago. In order for farmers to avail themselves of the bank's facilities for supplying them with personal credit, they have to conform to certain legal requirements. Subject to this reservation, however, the Bank of France has always made every effort to assist the farmer, since it is an institution for national credit and recognizes that

agriculture in France is even more important than manufacturing.

The Bank of France aids agriculture in three ways: (1) It helps the individual farmer to secure loans and discounts; (2) it makes possible the success of the rural credit banks and facilitates the rediscounts which they offer to commercial banks; and (3) it provides the government with the necessary funds for supplying the needs of the rural credit banks.

In promoting the relations of the local banks with individual farmers, by offering discount and loan facilities, the Bank of France has encountered a fundamental difficulty in that the farmer, under the French law, is not considered as a merchant or a trader. Consequently, the law of bankruptcy does not apply to farmers. Their creditors do not have the protection that the creditors of a merchant have. The French law of bankruptcy provides that, if a business man becomes bankrupt, he must cease to do business. In this case the proceedings are simplified for the creditors and they are also guaranteed an equitable share of the assets of the bankrupt. In order to facilitate the recovery of bad debts from persons who do not come under the bankruptcy law, such as farmers, it is necessary to resort to the law of restraint. Under this law, however, the creditors are not sure of an equitable distribution of the bankrupt's assets, since they are paid in the order of the restraints.

Many efforts have been made in France to bring farmers under the commercial act in order to promote rural credit. All such efforts, however, have hitherto failed because of a prevailing sentiment against placing farmers under

the commercial law and thus exposing them to the danger of being forced into bankruptcy. The Bank of France has shared in this general feeling of solicitude for farmers. At the same time, instead of curtailing rural credit on these grounds, it has provided a fund for granting such credit in spite of the legal difficulties of recovering debts. But many years of experience have proven that the risk the bank runs in granting farmers credit under this system is reduced to the minimum, the losses having been practically nothing.

The Bank of France has stretched out a helping hand to the farmer by opening branch banks in provincial towns to the number of 570. These branch banks are located in all towns of 8,000 or more inhabitants, and sometimes are even placed in towns of less importance. A representative farmer is made a member of the board of administration of each branch bank, while recently the Bank of France has placed on its general board a representative of the agricultural interests to sit side by side with the representatives of the great financial, commercial and industrial interests. It has also assisted the farmers by means of an educational propaganda which explains to them the advantages offered by this bank. Moreover, the Bank of France has always insured to the poorest farmer the same rate of interest for money that it grants to capitalists. This rate of interest has generally been 3 per cent; but, for financial and political reasons, this was recently raised to 4 per cent.

Another evidence of the bank's interest in the welfare of farmers is shown by the facilities provided whereby the farmers may secure the three indorsements required

under the law in order to have the Bank of France discount their notes. The farmer, for instance, can replace one of the indorsements by giving once for all a general guaranty which covers his whole series of discount operations. Another method of replacing a required signature is by depositing papers with the bank. The value of the paper is determined by the bank according to the financial status of the farmer, and the bank keeps the paper at the lowest figure according to that standing. A third way in which this indorsement can be replaced is by the deposit of a warrant for goods. The following goods may be pledged on such a warrant: All harvest products, grain, wine, straw, in certain cases live stock, and so on. The cost of the warrant is 20 cents for every $200 borrowed and 10 cents for the legal stamp. The borrower is obliged to keep the security in his own possession and in good condition until he pays his debt. But he may sell the goods on condition that he immediately pays off the warrant held by the Bank of France and that he gives notice to the bank before delivering up the goods under warrant.

These three kinds of facilities provided by the Bank of France itself have made it possible for a large number of farmers to avail themselves of the credit offered by it without having to comply with the legal requirement that notes must carry three indorsements. French farmers can thus furnish all necessary guaranties by obtaining the signature of the landowner, if the borrower is a tenant farmer, or of one of their relatives or friends of good financial standing who is willing to indorse a note for them. As will readily be recognized, a large number of farmers were unable to bring together these three forms of in-

dorsements until after the establishment of the local rural credit banks. In fact, it was to supply the farmers of France with the means of getting this security that these local banks were primarily established.

Another difficulty in the way of farmers formerly getting credit from the Bank of France was the legal restriction which limited notes discounted by the bank to a period of three months. As agricultural personal credit in France requires loans for at least from six to nine months, this difficulty had to be overcome. It was accomplished by the Bank of France, in its dealings with farmers, renewing their notes every three months free of charge. Of course, such renewals are strictly voluntary on the bank's part and they are subject to the general economic situation of the country. But refusal of renewal has seldom been exercised. The economic situation alone renders a bank of issue unable to supply all the needs of personal agricultural credit no matter how much it may desire to assist farmers. The whole question of the renewal of farmers' notes is one of prudence. The solicitude of the Bank of France for agriculture, however, has always made it possible to be of real assistance, especially to stock breeders, by granting them credit for fattening their cattle.

Some of these loans are quite small, while others are very high for farmers. Out of a total of 450 such loans to individual farmers, 250 are below the sum of $4,000. During the past 10 years the total amount of these loans is about $100,000,000, and this figure would be very much higher if it included loans which are apparently granted for commerce and industry, but which indirectly benefit agriculture.

The Bank of France also makes every effort to assist the local rural credit banks. As has been explained, the local banks have two functions. In the first place, they act as independent banks so far as their capital and deposits are concerned. The advances made to them by the government put them on an independent basis. But, in the second place, as soon as the credit demands of its members exceed a bank's resources, it is still able to assist them by rediscounting their notes at the Bank of France through the regional banks. While the rural credit banks usually rediscount with the Bank of France, they are equally at liberty to rediscount with any other bank. Some of the local banks, in order to facilitate the discount of their bills, have placed with the Bank of France a fund to secure such discounts. At the present time the Bank of France conducts regular discounting business with all the regional banks and, through them, with more than 3,000 of the local coöperative rural credit banks.

Finally, the Bank of France assists agricultural credit by granting large sums to the government for use in financing both the local and regional rural credit banks. As has been previously stated, when the charter privileges of the bank were renewed in 1897, it consented to advance for agricultural credit the sum of $8,000,000 and to make an annual grant in proportion to its profits of not less than $400,000 to be used for the same purpose. During the first 16 years that this arrangement has been in operation, the Bank of France has turned over to the government for rural credit the sum of $18,000,000, which, with the original loan of $8,000,000, makes a total of

$26,000,000 advanced by the Bank of France for agricultural credit purposes.

During the year 1913, the Bank of France paid over to the government about $2,800,000, this grant being in proportion to the amount of business transacted by the bank in that year.

It is to be clearly understood, however, that when the government advances this money to the regional banks, it is a loan and not a gift. The loan was originally made for five years, but on the request of the regional banks it has been constantly renewed after consultation with the proper authorities. But the renewal has always been made with the understanding that it is not to be considered by the local credit banks as a gift. In fact, the stipulation has recently been made that the local banks must set aside 10 per cent every year out of their profits for the ultimate repayment of the loans. The government is granted the money free of interest, the regional banks are granted loans on the same terms, while the regional banks charge the local banks from 2 to 3 per cent interest. Individual borrowers pay the local banks from 2½ to 3½ per cent interest for loans.

Thus the French system of personal short-time rural credit is intimately related to the Bank of France. For only farmers can be members of an agricultural society; only farmers can belong to a local rural credit bank; only local banks can form regional banks; only regional banks can join the federation of regional banks; and only members of these various organizations can avail themselves of the credit which the Bank of France has placed at the command of the government for rural credit purposes.

It is a simple but an effectual plan, in that it has brought about notable improvement in the economic and social conditions of the rural population of France.

GOVERNMENT AID FOR COLLECTIVE LONG-TIME CREDIT

In France, as well as throughout the world, agriculture is becoming more and more industrialized, and, therefore, requires a long-time credit. The main purpose of this form of collective credit is to promote the prosperity of small farmers. Under a system of industrial agriculture, small farmers must employ collective methods in order to place themselves on equal terms with large farmers in making purchases of necessary supplies. Only by coöperation can small farm owners expect to enjoy the same advantages as large farmers. Therefore, long-time collective credit is needed to complete the structure of an agricultural credit system begun by short-time credit.

In order to secure for small farm owners the possibility of coöperation in making purchases of their requirements, the French government undertook to provide the facilities by which they could secure collective long-time credit. This was done by the law of 1906 which authorized the regional banks to make long-time loans to coöperative societies which were organized for the purpose of purchasing supplies or for the production and distribution of farm products. The principles underlying this law are the same as those which underly the laws of 1896 and 1899. In other words, the government stimulates independent initiative, but does not replace it.

The law of 1906 defines the conditions with which co-

operative societies must comply in order to receive recognition and be entitled to enjoy the credit facilities offered. It provides that long-time credit can only be granted to associations for the production, conservation, or marketing of farm products actually raised by their members, or to associations for carrying on agricultural enterprises whose members are actively engaged in farming. The rate of interest on loans cannot exceed 4 per cent on this form of credit, and dividends must not be distributed on capital, but to the members according to their contributions to the societies for productive purposes. The aim is, therefore, to encourage pure coöperative societies and not joint-stock companies.

The total amount of credit that can be granted to these societies is fixed by law at one-third of the sums paid by the Bank of France to the regional banks for agricultural credit purposes. So that the money used by the government for this form of rural credit is primarily supplied by the Bank of France.

In order to obtain a long-time loan under this method, a coöperative society must make out an application and submit it to the regional bank; the latter, in turn, transmits the application to the ministry of agriculture. When such application is received, a technical inquiry is made by the ministry of agriculture into the condition of the society making the request for a loan in order to determine the needs of the society. The authority for granting long-time credit of this nature is left with the same commission which controls the grants to the regional banks. The commission will allow a grant only after being fully acquainted with the society's needs, and it will only grant a loan

then on the condition that the society give a mortgage on its entire property and secure the mortgage on the unlimited liability of all its members.

On loans made to coöperative societies, interest varies from 1½ to 2 per cent. This favorable rate of interest for long-time loans is granted on the theory that the promotion of agriculture means the promotion of national interests. Agriculture, it is contended, is more heavily burdened than other industries; and, in order to prevent rural depopulation and to further the social interests of the nation, it is believed by the French government that the welfare of the farming population cannot be too well cared for.

Agricultural coöperative associations existed in France before the law of 1906 was passed, but the law has greatly promoted their development. There are more than 3,000 coöperative dairies, but only about 300 of them have received loans under the law for a total credit of more than $2,000,000. These dairying societies are primarily composed of small farmers and unite in their membership about 75,000 farming families. It rarely happens that a farm family has more than two cows. Government aid for coöperative long-time credit in France, therefore, is almost wholly devoted to promoting the interests of small landowning farmers. The credit is granted to all forms of agricultural coöperative societies which are willing to comply with the conditions of the law.

The foregoing summary shows that European farmers have succeeded in providing themselves with money and credit to finance their operations by means of their local

organizations; and, where these means were not always sufficient for their purposes, they have been aided in different ways by their governments.

Both local and central credit banks, as well as the supply associations, are the fruits of the modest efforts of small landowning farmers in Europe. They came to the aid of each other by pledging their property for their collective obligations, and then they laboriously but securely built up their own reserve funds to protect their credit and to save themselves from financial loss in case of local failures.

The keynote of their success was confidence in each other as neighbors and in their farmers' organizations. If these simple principles could win success in Europe, there is no reason why they cannot be made to succeed in any part of the world if put into practice by organized landowning farmers.

CHAPTER IV

PERSONAL CREDIT FOR THE LANDLESS FARMER

THE various methods of financing farmers just described relate almost entirely to landowners, and those methods are primarily based on self-help and mutual help. But in some countries the landless tenant and farm laborer exceed the landowners in number, and they are frequently in need of money and credit in order to pursue farming profitably. As a rule, these two classes of farmers have little or no capital as a basis for material security which is required of members in mutual rural credit banks. In many instances, however, they are admitted as members in Raiffeisen rural credit societies and are granted credit for a limited time and amount. Notwithstanding this aid, it was frequently insufficient to meet their needs, and many tenant farmers and farm laborers abandoned the country and engaged in industrial pursuits in the towns and cities.

As a means of counteracting this tendency, various governments undertook to establish better living and working conditions for the landless farmer. Where government credit has been granted, it has generally been in behalf of these classes. One of the chief objects in these endeavors has been to repopulate rural districts by encouraging land ownership on the part of those who

were practically without capital or credit, but who were desirous of taking up farming as a means of earning a living. The character of the borrower rather than his possessions became the basis of granting him a loan even when the purchase of a farm was at stake.

The problem of furnishing credit to the tenant and farm laborer is much the same the world over. Where security for a loan of a material nature is lacking, reliance must be placed on the moral character of the borrower if the average tenant and farm laborer are to be financed at all.

SELF-HELP AND MUTUAL HELP

There are many reasons for encouraging the man possessing a reputation for honesty, sobriety, strength of muscle, industry and intelligence to continue as a tiller of the soil. The future success of agriculture will depend largely upon the development of this type of farmer. The primary form of credit for these classes of the rural population is to be furnished with a piece of land, however small, which some day may become their own property. That is an inducement which is very alluring to the average farm tenant or laborer, and this is clearly recognized by those who advocate either mutual aid or government aid in their behalf.

As between landowner and tenant, the former is the most natural source of credit for the tenant farmer. The owner's land is his property and it is to his interest to conserve his property value with its use. But he rents his land to a tenant. Without proper control, a tenant may abuse his privilege in the use of the land and exploit its fertility as much as possible. If a tenant fails to make

an intelligent use of the land, both he and the landlord will be worse off financially in the long run because of this depletion of soil fertility which is bound to result in a decrease in yield of crops with the same amount of labor. On the share system of renting farms which prevails to a large extent in Europe, a diminished yield means less crops to be divided and, therefore, poorer returns for both parties to the contract.

While many of the local rural banks admit as members both tenants and farm laborers, by far the larger number own land, chattels, or other property as material assets. If this were not the case, the principle of unlimited liability would have no significance. It is the pledge of their property for the debts of the society which forms the basis of collective credit. But, by the aid of these local rural banks, some of these farm laborers have been transformed into tenants because they have been granted credit on the basis of their honesty, industry, and general good character; while some tenants have become landowners for precisely the same reason. In some parts of Italy the tenant membership of some rural credit banks outnumbers the landowners three to one. This, however, is exceptional and it is due largely to the fact that Italy is characteristically an agricultural country with a large landless population. The credit problems for tenants and farm laborers have been worked out there under conditions not comparable with those prevailing in many other countries.

TENANT FARMING IN ITALY

As is well known, farm tenancy is usually based on some system of crop sharing. Not only does this plan

provide the necessary capital and credit for carrying on farming, but it also serves to conciliate the conflicting interests of capital and labor. Many of the large estates in Tuscany are divided up into separate farms ranging in size from 7½ to 50 acres. Each of these farms is worked by a farming family in number proportionate to the size and needs of the work on the farm.

These farming families undertake the entire cultivation of the farm, the landowner placing them in possession of the means of doing so by furnishing housing and stabling accommodations, implements, live stock, and the feed necessary for the working stock. Thus, in addition to the land, all the required capital stock is supplied to each farming family by the owner. All expenses for seeds, fertilizers, feed for fattening market cattle, and so on, are divided equally between tenant and landowner. If the tenant family is without money, the landowner usually provides what is necessary for the purchase of supplies without charging interest. Moreover, in seasons of partial crop failures, there is an arrangement provided for in the lease whereby, if the farmer's share is insufficient to cover his current year's expenses, the proprietor advances the tenant money to keep the farm going on which no interest is charged, the loan only being repaid in more profitable years.

In case of illness or death in a tenant family which necessitates the engaging of hired labor, the landowner sometimes advances the cost of this labor as a means of helping the tenant.

The lease made with the farmers prescribes the rotation of crops. In this way the landowner has a general super-

vision over the separate farms. Owners of very large estates, comprising not less than 40 farms, usually employ an agent whose duty it is to inspect the farms and to see that the terms of the lease are respected by the tenants. The crops raised are divided equally at the end of the season when settlements are made, as well as the profits from the raising of market cattle. The agent represents the landowner at the division of crops, has charge of the purchase of live stock, and acts in the place of the owner in all transactions.

This system provides for the employment of farming families all the year round, gives the tenant opportunities for accumulating a surplus with which he is sometimes enabled to purchase a farm of his own, and has established a real copartnership between landowner and tenant since both are equally interested in the prosperity of the farm.

By this system the need for short-time personal credit is less felt by tenants than it is by small farm owners. Where a landowner has 30 or 40 farms run in this way, he is frequently in need of credit but in larger amount than is supplied by small rural banks. He undertakes to provide the money by borrowing when necessary at some larger bank, while he becomes the creditor of his various tenants. The need for small rural banks of the Raiffeisen type is not much felt in those parts of Italy where this crop-sharing plan largely prevails.

When tenants belong to local credit societies and are desirous of obtaining a loan, the society protects itself by taking a lien on the tenant's prospective share in the crops. But, under these circumstances, the tenant must first obtain a written declaration from his landlord recog-

nizing the credit which the society is about to grant and acknowledging that he has no prior claim against the tenant's portion of the crops.

COLLECTIVE FARMING BY FARM LABORERS

The most difficult phase of the problem of personal credit relates to the farm laborer who has no material assets to offer as security for a loan. The value of the farm laborer's services has long been recognized in various countries. The demand for these services, however, is not constant, being more pressing at seeding and harvesting times. These busy seasons are frequently followed by periods of only partial employment or total unemployment.

Two methods of overcoming this lack of employment have been put into practice, one on the basis of mutual help and the other by means of government aid. Farm laborers in some countries have coöperated to rent land on a collective lease, and this method has been so fruitful of both economic and social benefits that it is worthy of a brief description.

The collective leasing of land by farm laborers originated in Italy about 25 years ago. It began in Lombardy in order to replace the capitalistic middlemen who used to lease estates from large landowners and then sublet them to farmers in small holdings. The farm laborers believed they could make better terms by leasing directly from the landowners.

There are two kinds of these coöperative farming associations, one for separate and the other for collective cultivation. The first kind prevails in the Province of Milan and in Sicily, the land being leased collectively

to the association and then parceled out into lots which are farmed separately by each family. In the other kind, which predominates in Emilia, the land is leased and farmed collectively under central technical and administrative direction. In some instances these associations make a contract to cultivate land on some crop-sharing system, receiving as a rule one-half or one-third of the crop.

From the social point of view, the coöperative farms, in which each family is assigned its own plot of land to cultivate, have given the best results; but collective cultivation holds the first place for intensity of cultivation and the perfection of its technical methods. In the latter plan each member works in turn, the work to be done being divided among the members who are nearly always more numerous than the enterprise requires. This system of collective farming is an interesting attempt to lessen unemployment in those regions of Italy where farm laborers are very numerous.

The importance of this form of coöperation and mutual credit is greater in the Province of Emilia, because in that district the population consisted mostly of landless farm laborers who went out at a daily wage to work on neighboring farms. This class of rural workers was subject to long periods of unemployment. As a consequence, strikes and serious labor troubles arose which were due to the discontent of the farm laborers. The formation of the collective farming associations, however, served to calm the labor troubles in this district and also aided in producing greater yields from the land. These associations, therefore, raised the standard of agriculture as well as the economic and social status of their members.

The necessary capital for running the collective farms is nearly always obtained through loans. In southern Italy these loans are secured from the special agricultural credit institutes, and in northern Italy they are obtained from coöperative credit banks, regular banks, private capitalists, buyers of farm products who advance money on the anticipated crop returns, or from the members themselves who postpone the withdrawal of money due as wages. Intermediate institutions for the administration of credit under special acts or as autonomous deposit and loan banks have been organized by these farming associations.

In addition to providing capital, the societies conduct other supplementary business for the benefit of members, such as the collective ownership and working of machines, collective purchase of supplies and sale of produce, coöperative dairies, and cattle insurance. Moreover, they are striving to accomplish certain educational and moral work in behalf of their members through the establishment of special schools, infant asylums, and short lecture courses on agriculture and general education.

In Sicily the tendency is constantly to enlarge the area of the coöperative farms, and not only to lease but to purchase the land. In central Italy, where great difficulties have arisen from so-called "civic usages," and in the district of Padua which was constantly subject to agricultural strikes on the part of the laborers, the tendency now is to adopt this collective farming system and obtain the land either by lease or by purchase. In the Province of Ferrara the tendencies are toward collective leasing or purchasing the land and coöperative crop-sharing farming. In the latter case land is obtained from

landowners and a copartnership agreement is entered into whereby the crops and the profits of the enterprise are shared. These coöperative farming associations have appealed to the government to induce it to pass legislative measures to provide them with better credit facilities and technical guidance in agriculture.

The latest data with reference to these coöperative farming associations in Italy show that in 1912 there were 152 societies with a membership of 35,360. They operated 143,750 acres at a rental of $635,140.

The governments of Hungary, Russia and Roumania have sent commissions to Italy to study these coöperative farming systems by farm laborers with a view to adapting them to meet the special needs of the landless farmers in those countries. Hungary has introduced the system and already 11 associations of farm laborers have been organized. These have already leased and are operating nearly 18,000 acres of farm lands. Roumania has also passed special laws which enable the farm laborers to lease or otherwise acquire lands to be worked under this system of coöperative farming.

In southern Italy, where great land-reclamation works are necessary, efforts are now being made to form coöperative associations of farm laborers for the purpose of first reclaiming the land and afterwards farming it on the collective method.

The results of the work of these coöperative farms are that they have contributed to real progress in agricultural methods among those who need it most, have stimulated the sense of responsibility among their members, have given them more exact knowledge on the cost of pro-

ducing agricultural products, and have taught them how to acquire and use personal credit.

HOW DENMARK AIDS FARM LABORERS

But many governments have also come to the aid of the small tenant farmer and the farm laborer by providing the means of obtaining loans. As an encouragement to rural repopulation, Denmark early undertook a system of granting credit to small holders.

This plan was begun in 1899 as an experiment to be continued five years. It proved so successful that it has been continued ever since. The government first placed at the disposal of the people who desired to start small farms the sum of $500,000 which could be had in loans at 3 per cent interest. This sum has now been increased to more than $1,000,000 a year.

Only farm laborers or very small farmers can take advantage of this government credit. The borrower has to fulfill certain obligations in order to secure a loan, since the government wants to be assured that the money will be expended for the purposes intended in granting the loan. The aim is to assist the small farmer or farm laborer, who had previously worked for other farmers, to establish his own farm, build his own home, and become an independent landowner. Therefore, the law provides that those who have worked at least four years for other farmers can make application for a loan. The amount of loan the government grants is 90 per cent of the valuation of the property. This is much higher than is granted by the credit associations which is usually 50 per cent of the valuation.

When an application for a loan is made, the prospective borrower has to file with it a declaration from the head of the community where he resides regarding the nature of the land sought for cultivation. The borrower also makes affidavit that he is a sober, industrious and economical worker. Unless these preliminary conditions are fulfilled, the application for a loan will not be considered. Each county has a commission that first investigates the application; if the application is later approved, the county commission also dictates how the money shall be expended.

During the time this law has been in force, about 6,000 small farms have been established, and very few farms have been taken over by the government as a result of the borrowers not fulfilling their obligations.

Farms established under government credit must be occupied individually. The land cannot be cultivated in a coöperative way. The nominal owner may sell his farm, but it must be continued as a small farm. If sold to someone else, the new owner may continue the government loan if his qualifications are such that he would have been granted the loan had he himself originally applied for it.

The loans the government has granted for this purpose now amount to nearly $6,500,000; and up to the close of 1912 the losses by the Danish government have been about $2,500 only.

HOW FRANCE AIDS FARM LABORERS

The French government has also provided a means of furnishing credit to farm laborers. This is known as long-

time personal credit which was established by the law of 1910.

The purpose of the law is to attach the peasant farmer to the land, so that loans are only made in behalf of small holdings. The amount of a long-time personal loan cannot exceed $1,600, and the maximum period for which a loan may run is 15 years. Loans are only allowed in the case of young farmers. The object is to encourage young men who have finished their military service to take up a small farm and to assist peasant farmers without money to purchase small holdings.

This form of government credit is granted by the local credit banks. The borrower may or may not be a member of his local society. The young man's character becomes the basis of his credit for this purpose. The government advances the money to the local credit bank through a central or regional bank, of which there are one hundred in France, the funds being under the control of the Bank of France for the sole purpose of promoting agricultural credit among the landless tenants and farm laborers.

Credit under this sytem may also be granted to small holders for the purpose of transforming a farm; for instance, from a cultivated to a grazing farm. It may also be granted for reconstructing a farm; that is, if a farm has been ruined by flood, a loan will be granted for its reconstruction.

These long-time personal loans are payable on the amortization plan—that is, by the payment of the interest and part of the principal each year so that the debt is paid off before or at the end of the designated time. The amount to be paid each year is fixed at the option of the

borrower. As a rule the rate of interest on these loans is 2 per cent. The security may be of several kinds, of which the most common are personal indorsement, life insurance policies, and a mortgage on the farm.

For the first two years after the law became effective more than $2,400,000 had been loaned under this system of long-time personal credit. Having already proved a success, this law is expected to give better results in the future and to be a powerful influence in establishing and maintaining small peasant farms in France.

HOW GREAT BRITAIN AIDS FARM LABORERS

During the past six years, the British government has been doing a great deal to encourage the development of small holdings and garden plots among tenants and farm laborers. In 1907, the Small Holdings and Allotments Act was passed to take effect on January 1, 1908. This law conferred authority on county councils in England and Wales and the commissioners of the Board of Agriculture and Fisheries to acquire lands, either freely or compulsorily, for the use of small holdings. Before this law was passed, it was very difficult for the tenant farmer or farm laborer to become an independent landowner because of the hereditary system of land holding in the British Isles. But, under the provisions of this law, a summary of the report for 1913 shows that the total quantity of land acquired for small holdings to the close of 1913 was 182,022 acres. Of this amount 125,971 acres have been purchased for about $20,500,000, and 56,051 acres leased at rentals of about $340,000.

Of this land, 157,883 acres had been actually rented by

county councils to 11,021 small holders, and 476 acres sold to 42 small farmers, while the councils of county boroughs have rented 994 acres to 209 tenants. In addition, 8,037 acres have been rented to 61 coöperative small holdings societies. These associations become responsible for the rents, but they subrented the land to 1,424 of their members during the past six years. Moreover, 3,314 tenants have been provided with more than 44,000 acres by private landowners. The land acquired but not yet allotted to tenants amounts to 14,955 acres, and it is estimated that this will provide holdings for 917 more applicants and 1 coöperative association. The law, therefore, has made provision to supply tenants and laborers with more than 17,000 small holdings in six years. About 2 per cent of the applicants express a desire to purchase rather than to rent holdings.

The number of applicants in 1913 described as agricultural laborers was 988, which was nearly 24 per cent of the total number. This is a smaller proportion than was the case in previous years, but the figures can only be regarded as an approximate estimate because the classification is not very exact. In the larger number of cases, it appears that farm laborers who are regularly employed have neither the time nor the capital to cultivate a small holding of several acres, so that the needs of this class have been more successfully met by providing small garden plots which they can cultivate in their spare time. The aim is to increase their income. On the other hand, the larger number of applicants for small holdings are either tenants or landowners who want to increase the size of their holdings, or men who have some other calling which does

not take up all their time. At the present time there is an unsatisfied demand for holdings by 6,271 approved applicants for which it is estimated that about 90,000 acres will be required.

The Board of Agriculture and Fisheries made inquiries in 1913 as to whether or not the rents for small holdings had been paid punctually. With few exceptions the replies were in the affirmative. Many of the county councils have large areas of rented land under their management, and it is not at all unusual that there should be some arrears especially in view of the fact that it is customary with agricultural tenancies in England and Wales not to require payment for one or two months after rents are due. Taking the country as a whole, the amount of arrears regarded as not recoverable is quite negligible.

The number of tenants in 1913 who were served by the councils with notice to quit was 90 in England and none in Wales. This represents a proportion of unsatisfactory tenants of less than 1 per cent. In addition, 174 tenants in England and 9 in Wales voluntarily gave up their farm holdings, but in some of these cases it was for the purpose of removing to larger farms.

The foregoing review of the ways adopted by European farmers to provide themselves with personal credit, as well as the methods of supplying government aid, shows that there is nothing mysterious about these rural credit features. Farmers of a given district, with little or no ready money, coöperate together as an organized body to provide and protect a collective credit. When a government comes to the aid of unorganized and landless tenants

and farm laborers, it does so not in a spirit of charity, but on a strictly business basis. By these means farmers are enabled to secure money and supplies for productive purposes when most needed, and these ends are attained (1) without loss of time, (2) at a reasonable rate of interest, (3) for either a long or short time, (4) with the assurance of not having to pay before the loan falls due, and (5) with facilities for payment in small installments. By means of organization, farmers are also aided to procure the best grades of necessary farm supplies and machinery, for cash or on credit, at a small advance over the regular wholesale prices.

The principles governing the activities of these farmers through their local rural banks are the ordinary methods of banking and business conducted with extreme care, frugality, and honesty. The natural consequences are that there have been few bank failures and practically no losses to the members of these banks, though they have existed in some countries for upwards of half a century. On the other hand, the farmers themselves have received educational, moral and material benefits which have greatly surpassed the expectations of the most sanguine exponents of self-help, mutual help, or government aid in behalf of personal rural credit.

CHAPTER V

COÖPERATIVE FARM MORTGAGE OR LONG-TIME CREDIT

As previously described, personal credit is desired largely to meet the current financial needs of farmers. Money is required to finance operations on a farm during the time crops are being raised or live stock are being fattened for market. This is called short-time credit because the length of time for which loans are granted on personal security seldom exceeds six months or one year.

For special purposes like the raising of cattle, which takes much more time than it does to grow a staple farm crop, the period of a loan may be extended to three years, and this would still be regarded as short-time credit.

BASIS OF MORTGAGE CREDIT

Where government credit is granted for the purchase of a farm, the period of a loan may run from ten to fifteen years; and while such a loan would be granted on the personal responsibility of the borrower, the government protects itself by taking a mortgage on the farm as the security for the loan. In other words, the government practically purchases or becomes responsible for a farm and turns it over to a farmer without capital on credit. The tenant and farm laborer have been the recipients of land credit of this kind to a large extent. It is evident, however,

that the line between short-time and long-time credit cannot always be sharply drawn.

With a great many farmers, ownership is only partial. The farms have either been bought on time by the payment of part of the purchase price only, or money has been borrowed to meet a farmer's capital requirements for farm improvements such as erecting or reconstructing barns, silos, or other buildings, for draining, clearing or irrigating the land, for the erection of fences or the making of roads, or for otherwise equipping the farm so as to bring his operations to the highest state of improvement, efficiency, and profitableness. In such cases the property itself is made the direct security for borrowed capital, and a mortgage is given on the farm to cover the amount of the indebtedness. The length of time the mortgage is made to run varies with the amount of the loan and the inclination of the lender. This is known as farm mortgage or long-time credit.

For such improvements on farm property, much more capital is usually needed than is the case when ordinary current expenses are to be met by personal security, as well as a longer period of time for the repayment of the loan. Consequently, the money needed for mortgage purposes must be regarded as more or less of a long-time investment because the average farmer anticipates that he will only be able to pay off his mortgage gradually out of the increased earnings derived from the improvements or equipment added to his farm.

From the financial point of view, the difficulties about mortgage credit as compared with personal credit relate to the amount of the loan and the length of time involved.

Loans on mortgage are necessarily for larger amounts than loans on personal security. The holder of a mortgage cannot readily dispose of it on the market in case of need. But if, in the place of a single mortgage, notes, debentures or bonds to its face value are issued and the mortgage itself is held by a firm or institution issuing the notes or bonds as security, then a hundred investors may be found who would each be willing to take a part of the subsidiary paper as an investment and feel perfectly secure in doing so. For the mortgage becomes the security for the paper as the farm itself is the security for the mortgage. In this way farm mortgage notes or bonds could more easily be sold on the money market than the mortgage itself.

If a mortgage is made to run for 10, 15 or 20 years, with interest payable annually or semi-annually, the holder of a mortgage may find himself at the end of the period with a farm on his hands rather than his money because the borrower was not able to pay down the whole amount of the mortgage at that time.

To avoid this difficulty, payment of part of the principal each year to reduce the debt has been conceived as a workable plan to give greater assurance to the creditor and to furnish a measure of relief to the debtor.

These are the methods briefly set forth which European farmers have worked out in order that they may use their land most advantageously as the basis of their credit. Mortgage institutions have been organized under authority of law in practically all European countries, but no uniformity of type exists as to method of organization or detail of operation. Nevertheless, a review of these methods and details will be valuable as an aid in determining

their application to farm mortgage conditions in the United States and Canada.

FARM MORTGAGE MUTUAL CREDIT ASSOCIATIONS

Organized farm mortgage credit began in Prussia among the great landowning nobility in the reign of Frederick the Great. The owners of large estates, when in need of money, were frequently unable to borrow it on mortgage without paying exorbitant rates of interest. This made borrowing on farm mortgage very difficult and burdensome. As a means of relief, there was established what is known as the "Landschaft," or an association of landowners to borrow money on mortgage.

The establishment of this farm mortgage credit system is due to the untiring efforts of Büring, a Berlin merchant. In 1767 he proposed to the King of Prussia the establishment of a loan system for the landowning aristocracy.

The idea underlying Büring's project was to free the large landowner from the necessity of raising money on mortgage directly by the creation of an organization which would undertake this task for all the landed proprietors of a particular district. This was the origin and purpose of the farm mortgage mutual credit associations.

The fundamental idea of this system consists in replacing the single mortgage on an estate, where creditor and debtor must meet together and personally transact their business, by an institution that undertakes for the landowners of a district to act as intermediary between owners of farms seeking credit and owners of money seeking investment. By means of the combined credit of landed proprietors, such an association offers a far better

security than the ordinary mortgage. Moreover, a further object was to be able to realize money on this collective security without the customary delay and high rates of interest that the single landowner encountered when he tried to borrow money on mortgage.

These societies of large landowners are corporations which receive a charter from the king. They are under state supervision which is regularly exercised by a specially appointed royal commissioner and by the minister of agriculture. Within the limits prescribed by the government, the mortgage credit associations manage their own affairs as self-governing corporations. The employees have the standing of state officials. The ordinary business is carried out by a body of special officials known as "syndics" or lawyers. They must have had legal training and be qualified for the judicial office. By such preparation they have public authority to attest documents.

Only the lawyers appointed by the credit associations and the lower employees receive salaries. All other officers must be chosen by the general assembly, or by certain committees, from among the incorporated landed proprietors who serve without pay. The ground of their eligibility is their property qualification as members of the association. But when an honorary member expends money as a cost of representing the association, he receives pay on a moderate scale as compensation for loss of time and necessary expenses. The higher officials chosen by the society are confirmed in their office either by the king or by the royal commissioner who is usually the head of the district or province.

When a farm mortgage credit association has received

its charter, it can issue bonds to members who desire to borrow on mortgage. The members first submit their land to appraisal and mortgage their property to the credit association which is thus placed in a position to dispose of the combined credit of the entire membership. As such an association is established without capital, the money required to supply the needs of members is raised by the issue of bonds. These bonds are secured by mortgages on the farms of all the members, and they are sold on the open market the same as the bonds of a railroad or other corporation. The principle in both cases is precisely the same, since the bonds represent the whole or a part of the valuation of the real property. By this means a security on farm lands is created that can be realized at any time and which is far superior to a mere individual mortgage security.

Since these mutual credit associations are organizations of borrowers, they have no need of capital, they aim to keep interest rates as low as possible, and they do not carry on business for profit. Each member has to pay a small entrance fee to meet running expenses for a clerk, business office, cost of land valuation, and other incidental expenses. In this respect they are essentially different from all other loan firms, especially from mortgage banks.

Every landowner who belongs to a farm mortgage credit association is entitled to an amount of credit proportionate to the value of his land. The limit of credit is two-thirds of the land's appraised value. When a member desires to borrow money, he makes application to his organization. A valuation of his land is then made by three absolutely independent assessors. First, it is made by a

committee of his own association who are themselves farmers and landowners. Two or three of them are sent to value the land. Then there is another valuation by an independent assessor in the district, such as a professor of agriculture or other competent authority on farm-land values. And lastly, there is a valuation by the officials of the association. The lowest valuation is generally adopted. In this way a valuation of the land is secured which is absolutely reliable and probably below the real market value. If a farm property has thus been valued at $100,000, then the member is entitled to a credit up to $66,667.

But the credit association is unable to advance money to a member because it has no capital. So the society issues bonds to the amount of the loan desired and turns them over to the borrower who, in turn, executes a mortgage for the amount. The mortgage is registered in the books kept by the civil law officials, but it is held by the association. The bonds which the member receives are not secured by his specific mortgage, but by all the assets or mortgages of the association. The bonds are made payable to bearer. Intending borrowers indicate at the time of making application at what rate of interest they wish to borrow. The rates most usually open to their choice are 3, 3½, 4 and 4½ per cent bonds. In the year 1913 the bonds in circulation were practically all of 3, 3½ and 4 per cent bonds, the 3½ per cent bonds being distinctly predominant. Naturally the market value of bonds is regulated by the amount of interest they bear. Thus, in 1913, 3 per cent bonds sold for 81, 3½ per cent bonds for 91, and 4 per cent bonds for 95.

But in order to realize the money desired, the landowner must sell the bonds handed to him by his association. The price of farm-mortgage bonds varies on the money market the same as bonds of other corporations, so that possible losses on the exchange must be borne by the landowner. If the bonds are sold, the owner of the estate is debtor to the credit association and responsible to it personally and with his property to the full extent of his bond debt. On the other hand, the association is creditor to the proprietor and at the same time debtor to the holder of the bonds. The latter, however, has only a personal claim against the association. No more bonds can be issued than are covered by mortgage of like amount and bearing equal interest. The great guaranty, then, for the holder of bonds lies in the fact that every bond is secured by a corresponding mortgage of the credit association, since it may be safely affirmed that, as a rule, the mortgage indebtedness does not exceed half the commercial value of the properties mortgaged. The landowner who receives the bonds either sells them himself wherever he can find a customer or he may sell them through a banker. The bonds are issued at par with various nominal values ranging from $25 to $1,000, but they may sell below or even above par. As a rule, however, the price of these farm-mortgage bonds is very stable. Any loss or gain in the selling of the bonds is a risk assumed by the borrower.

The repayment of the loan is by means of amortization; that is, a small part of the principal is paid off annually. The usual amortization rate by credit associations is one-half per cent. They also usually charge one-half per cent for running expenses. If the bond calls for 3½ per cent

interest, then the debtor has to pay 4½ per cent each year as follows: 3½ per cent interest on bonds, ½ per cent for running expenses, and ½ per cent amortization of debt. Interest is paid only on the remaining indebtedness. In this way both the debt and the amount of the annual interest are constantly diminishing until the whole indebtedness is repaid at the end of about 50 years. Moreover, the debtor can pay off his indebtedness at any regular interest period by giving previous notice to this effect; but the debtor cannot himself be called on to pay his indebtedness so long as the land pledged as security is not allowed to deteriorate.

On the other hand, if the holder of farm-mortgage bonds wants his money for any purpose, all he has to do is to sell the bonds he holds. There is always a ready market for mutual credit association bonds because of being regarded as first-class security for the investment of trust funds. In Prussia, the law provides that widows' and orphans' funds may only be invested in government bonds or in mutual credit association bonds. Since there are generally trustees in the market who have trust funds to invest, these farm-mortgage bonds can be sold at almost any time. And this is also a factor in maintaining the stability of these bonds.

The repayment of the debt by amortization is of great advantage to the landowner since no large sum has to be paid at any one time. When 10 per cent of the debt has been repaid, debtors are generally permitted to claim cancellation to that extent in the registry of title. But in many instances the amortization system is prevented from being really effective in extinguishing indebtedness,

because debtors are frequently allowed to borrow again to the extent of the amount of indebtedness cancelled. The money paid in on the amortization plan is used each year to redeem outstanding mortgage bonds. The credit association purchases these bonds at the prevailing market rate. If they are bought in at the same price they were sold, the borrower loses nothing on the transaction. But in case the price of bonds rises above par, the credit association is entitled to the premium above the amount due the bondholders. The Landschaft in Saxony can redeem bonds at par. The great advantage to the debtor farmer lies in the fact that, if the bonds are selling below par, he can go into the market at any time, buy bonds, pay off his indebtedness, and take up new bonds at the lower rate of interest. But if the bonds are selling above par when he is prepared to repay his indebtedness, he has to pay par value only to the credit association. Thus, if a farmer owes $10,000 on mortgage and wants to pay it, he buys bonds bearing the same rate of interest as his mortgage and presents them to the credit association which is bound to accept them. If a bond having a face value of $100 is selling for 90, the farmer buys 100 bonds for $9,000 and thereby cancels his $10,000 mortgage.

But the credit association meets any possible loss of this kind by means of the sinking fund which has come into existence in the course of years as a result of savings in running expenses, premiums on bonds, and other profits. With many credit associations, the sinking fund which has thus arisen amounts to a considerable sum. Since the farmer borrowers are themselves the association, the accumulated profits or savings in the sinking fund belong

to them. When the sinking fund reaches 5 per cent of the outstanding obligations of the association, no more has to be paid into it. Then the profits are very often applied in reducing the indebtedness of the members by applying it on the amortization. In this way the profits very often make the amortization as much as 1 per cent instead of the customary ½ or ¾ per cent. Thus the farmer debtors reap all the benefits.

As previously stated, the farm mortgage mutual credit associations were created exclusively for the landed nobility. But in course of time, with the development of the Prussian land laws, the need was felt for the extension of their scope so as to include the remaining large farmers, small farmers, and even peasant proprietors. Now, therefore, these credit associations regard it as one of their highest duties to afford the benefits of organized loans, which cannot be called in, at low rates of interest and repayable by small installments or amortization, especially to owners of small and medium-size farms. For this purpose special credit associations have been established for peasant proprietors in several provinces in connection with the associations for great proprietors and the nobility. In other provinces advances on small and large farms are made by the same association. In view of the fact that farm mortgage mutual credit has been allowed to 55,000 peasant farmers up to 1913, it is evident that the scope of this form of credit is being rapidly extended. At the same time it has not acquired the position with peasants and small proprietors that it holds with great landowners, notwithstanding the progress which has been made in this respect. Of the farms which exceed 250 acres in

size, 66.3 per cent have availed themselves of the advantages of the mutual credit associations, while the corresponding proportion in the case of peasant proprietors is only 13.5 per cent. It is evident, therefore, that the economic importance of this credit system will in future depend on how far it assists in bringing about the prevalence of organized credit in the domain of small and peasant farms.

As an aid to promoting the sale of bonds and conducting other banking business in behalf of their members, some of the German mutual credit associations have established banks for these purposes. Originally the borrower had to sell his own bonds which were handed to him to the nominal value of the sum he wished to borrow. But now the borrower deposits these bonds in his association bank and he is given their market value in cash; that is, he exchanges bonds for currency and receives the current market price for the bonds. Theoretically, the bonds are sold by the bank at the current rate of exchange on the Bourse and the money is paid over to the borrower by the bank.

The farm mortgage mutual credit association of the Province of Saxony established a bank with $750,000 as a working capital which it had accrued little by little out of its profits and savings. This was done by the board of directors as a means of applying the profits to the benefit of the borrowers. This bank handles all the money of the association and carries on whatever publicity campaign is necessary to develop a market for the bonds and to secure as wide a circulation for them as possible. The bank also does both real and personal credit business as

well as all the usual commercial banking transactions. The profits of the bank all go to the association for the benefit of its members.

These associations of borrowers have been given legal power to enforce payment of all debts due without recourse to law by reason of the fact that the mortgaged property comes under the control of the association when it grants bonds on it. The right of compulsory administration has also been granted the associations. Loans to mortgagors in arrears of payments are not immediately recalled, as the debtor is given every opportunity to provide for payment. Most associations, however, charge an increased rate of interest upon payments in arrears, usually 5 per cent, and as security a further charge is entered in the registry of title against the estate. Should it become necessary to sell a debtor's farm, it is usually sold by auction in the open market. If the value of a farm is $50,000, this amount may be realized at public sale. Suppose it should sell for $45,000 and there is a mortgage on it for $25,000. Then the association collects its debt of $25,000, together with the costs of sale and other incidental expenses, which are very light under this system of foreclosure sale, and the difference of nearly $20,000 is turned over to the landowner who had not paid up his interest. In this way, every consideration is given to the debtor and for the protection of his interests.

The farm mortgage associations are administered as follows: The members come together in general assembly which body elects its own council of administration, while the latter appoints the board of directors. The board of directors consists of a general director and two other

directors, and at least one of the latter must be an active member of the association. In addition there are several other directors, one of whom is a lawyer who transacts all the association's legal business. The members of the board are government officials indirectly under government control. The legal officer of the association does the same work as that of a notary. A royal commissioner, with the minister of agriculture, has direct supervision over the work of the associations. Besides the central board of directors, other local directors are elected for the various divisions of the territory covered by an association. Such directors must not only be property holders in their districts, but they must also reside there the greater part of the year. By virtue of their office, they are members of the valuation revision committee and they must notify the central board of any irregularity or circumstance coming under their notice which is likely to impair the value of the association's claims upon mortgaged property. Councillors are also elected to district committees, who must hold property and reside in the district they represent. Their business is to assist in the valuation of farms for which loans are desired, to supervise farms upon which loans have been made or which are compulsorily managed in behalf of their association, and to report any circumstances likely to depreciate the property upon which their association holds a mortgage.

In Germany, there are 23 of these farm mortgage mutual credit associations organized on a coöperative basis in order to provide money for their members by the issue of bonds secured by mortgages on farm property. Of this number, 22 issue bonds on farm mortgages alone, while

the other issues bonds on urban as well as on rural mortgages. Prussia alone has 17 of these associations, the other 6 being in different provinces.

THE CENTRAL FARM MORTGAGE ASSOCIATION

Like the Raiffeisen personal credit banks, the farm mortgage associations felt the need of a central institution, particularly the Prussian associations. Hence there was organized in 1873 a central association by the affiliation of eight Prussian associations and one mortgage institution with communal guaranty which loaned on both urban and rural property. The central farm mortgage credit association was granted the right of a special corporation with the power to issue central farm-mortgage bonds.

The central association is managed by directors chosen from the leading officials of the affiliated associations. Its object was to issue central bonds on behalf of its members, but these member associations retained full authority to continue to issue their own bonds as before. As a matter of fact, then, this organization simply enabled the provincial associations which were members of it to issue central bonds in addition to their own bonds.

The necessary conditions for the issue of central bonds were the same as those for the issue of bonds by the provincial associations, namely, that they had to represent the value of mortgages on farms situated in the district of any particular association on whose behalf such central bonds were issued. The basis upon which the security for the bonds was founded was determinable according to the articles of association, rules for valuing farm property,

and other practices in force by each particular association.

One chief purpose in organizing the central association was to open a wider market for bonds of the provincial associations. It was believed that such central bonds would find not only a better market in Germany, but would be sold in foreign countries also. The bonds, by obtaining a wider market, it was thought would be less exposed to fluctuations, since bad harvests and other agricultural evils are usually only local, and while their occurrence might seriously affect provincial association bonds they would not be likely to affect the price of bonds resting upon much broader areas.

During the years from 1870 to 1875, when the central association was founded, the market prices of the bonds of several Prussian associations were low and unsteady. While for some time after the establishment of the central association the prices of bonds improved, still it has not met with the success anticipated, especially as to the sale of its bonds in foreign countries. The prices of central bonds did not maintain superiority over the bonds of provincial associations. About one-seventh of the total value of bonds circulated by Prussian farm mortgage credit associations is represented by central bonds, and by far the greatest part of these have been issued in behalf of the associations operating mainly in Brandenburg, which appear to issue central bonds almost exclusively, and in whose hands the practical management of the affairs of the central association seems to rest.

The want of success of the central association is attributed to two principal causes. First, the provincial associa-

tions have been unwilling to renounce any of their independence in favor of a central body; and, second, the market for bonds has always been mainly provincial because of the historical development of these associations. They have been in existence for upwards of 150 years, and the people have been accustomed to buying their own bonds, while the bonds of the central association have only been on the market since 1873. For these reasons they do not sell very well. In many cases, provincial bonds are only quoted on one or two exchanges besides their own center, and they are readily disposed of there. With many of the largest credit associations, however, their bonds are sold on the exchanges throughout the German Empire. This is due to the fact that the farm mortgage credit association bond is regarded as a perfect type of secure investment.

IMPORTANCE AND MERITS OF FARM MORTGAGE ASSOCIATIONS

The farm mortgage coöperative credit associations hold the leading position in the department of rural credit in Europe. From an agricultural point of view, their importance may be clearly seen from the results already achieved. To the year 1912 the Prussian associations alone had issued bonds covering mortgage loans to the total amount of $750,000,000. The principal amount of interest-bearing bonds at different rates is as follows: $105,000,000 at 3 per cent, $500,000,000 at 3½ per cent, and $125,000,000 at 4 per cent. The rate of interest on bonds changes with the state of the money market. In accordance with their coöperative principles, these associations endeavor to grant their members credit at as low a

rate as possible. For this reason the rate of interest on bonds depends in a great degree on the rise and fall of the rate on exchange, so that it forms a true picture of the general increase and decrease of interest.

The amount of sinking fund accumulated by the Prussian associations up to 1912 reached a total of $48,000,000, and the remaining guaranty and reserve funds amounted to $12,500,000. At the time of their establishment these associations possessed no capital of their own, because they only acted as credit agents without the purpose of gain. But in the course of time, they collected a capital of their own derived chiefly from savings in the cost of administration. These funds in 1913 amounted to about $14,000,000.

The merits and advantages of these farm mortgage credit associations in meeting the requirements of mortgage or long-time credit for farmers may be summarized as follows:

1. They enable both large and small landowners, as it were, to mobilize their property by means of bonds which circulate in the general system of securities and become realizable at any time in the money market.
2. The loans granted are not subject to recall.
3. The rates of interest are kept as low as possible and closely correspond with the market rates for money.
4. Since the bonds are irredeemable by the holder, the rate of interest cannot be raised.
5. The debt is extinguished gradually by amortization.
6. The right is granted to the debtor to reduce his debt by additional payments to suit his convenience.
7. The expenses for land valuation and other charges are low.

8. The cost of administration of the associations is relatively low and yet their officials are highly qualified for their work.

The advantages of this system over ordinary commercial mortgage practices are very great. Farmers are not usually in a position to repay mortgage loans in lump sums; and, if a loan should suddenly be called in, they would have to borrow elsewhere, which cannot always be done without burdening themselves with additional costs, higher interest rates, loss of time, and other disadvantages. The rates of interest on commercial mortgages are generally higher than the interest rates on bonds of a farm mortgage association. There is a great advantage in being free from the liability of an increased rate of interest. Furthermore, repayment of mortgage loans by installments at the will of the borrower or in small annual amounts by amortization to a sinking fund is rarely granted by private money lenders or by ordinary commercial banks. Another advantage is that of economy in administration. Since these mutual associations do not aim to make profits, the borrowers themselves obtain the full advantage of low initial charges for land valuation and other necessary costs in granting loans.

Since the directors at the central office are themselves landowners and borrowers who hold honorary office, the management is both inexpensive and efficient because the directors are thoroughly conversant with the needs of farmers and the value of farms and estates. Similar advantages arise from the fact that local representatives of these associations not only hold honorary office, but are also borrowing farmers; and they are thus in a position

to judge the farming condition of estates and the business ability of owners. They are, therefore, capable of supervision over mortgaged farms.

As a result of adequate accumulated funds, some associations are able to grant loans almost without any incidental charges except such as are necessary to meet actual costs expended at the time, such as registration fees, and so on.

An indirect advantage to farmers arises from their being made acquainted with the value of their lands by means of the valuations made by the associations, the results of which are always communicated to prospective borrowers. This knowledge, especially since the associations now admit to membership owners of medium-size and small farms, can scarcely fail to have a beneficial effect upon farming operations.

In their unselfish, public-spirited labors, free from every tendency to profit making, the farm mortgage associations have rendered the most important services to the state by encouraging and preserving a vigorous and healthy agriculture. The extensive privileges granted to them by the state, such as the right of seizing mortgaged lands without adopting legal procedure, the right of seizing movable property, and the like are almost equal to the rights of government. On mortgaged farms, the claim of the association is regarded as a full proof of debt; and the power to seize movable property is of great practical importance in accelerating the collection of overdue interest. Thus, a legal seizure can at once take place on documentary proof furnished by the lawyer of an association. On its own authority, an association can also administer mortgaged farms both for collection of overdue claims as well

as for seizure when there are legal grounds therefor. And lastly, the quality of absolute legal security is vested in the bonds of farm mortgage associations. For these reasons, these associations are justly regarded as the most highly developed and most useful long-time, or mortgage, credit institutions in existence.

Quite recently, some of the mutual farm mortgage associations have granted loans for building good and suitable dwellings for farm laborers on the farms of their members, as well as for the carrying out of such improvements as drainage of wet lands. But mortgage credit cannot be used in raising funds for these purposes, and the surplus funds accruing from the business of the banks of the credit associations have been put to good service in these directions. These associations, therefore, are on the threshold of a new development. The increasing scarcity of farm laborers, the great economic importance for large farms to have a sufficient supply of capable farm hands, the difficulties with which agriculture has to contend, and the necessity of increasing the yield of crops to meet the demands of an increasing population have urged the directors of the mutual credit associations to turn their attention to these new undertakings as means of promoting the general welfare.

Notwithstanding their importance, advantages and merits, the "Landschaften," or farm mortgage coöperative credit associations, as institutions operated by and in behalf of farmers for financing their industry on a long-time basis, have practically been limited to Germany in their field of operations.

CHAPTER VI

NON-COÖPERATIVE FARM MORTGAGE OR LONG-TIME CREDIT

A—Provincial and State-Endowed Mortgage Credit Banks

Besides the successful means German farmers have adopted for promoting coöperative mortgage credit, various banking institutions in many European countries have aided the development of agriculture by granting long-time loans on farm properties. The importance of all these agencies in financing the farmer renders it necessary to review briefly the methods practiced by these banking institutions. By this means American farmers, as well as state and national legislators, will have before them sufficient data for their guidance in formulating farm-mortgage systems adapted to meet existing agricultural conditions in different parts of our great commonwealth.

PROVINCIAL MORTGAGE CREDIT BANKS

Germany

Probably no country in Europe surpasses Germany in the number and importance of non-coöperative or commercial institutions which have come to the aid of farmers by furnishing mortgage credit at reasonable rates of in-

terest, for periods of time to meet the farmer's economic needs, and for protecting the interests of both investors and debtors. Among these banks, the first place undoubtedly belongs to those which have been established for the whole of a state, or a province, or an administrative district within a province. The liabilities of these state, provincial or district banks are guaranteed by the public authority itself, which either directly manages or minutely supervises their management; while the profits accruing from the business of these institutions revert to the state, province or district which controls them.

But, out of 16 of these banks whose liabilities are guaranteed by the public authority, the bank at Hanover is the only one which restricts its mortgage loans to rural property. The original purpose of many of these banks was to render financial assistance to owners of small and medium-size farms. This was done by means of loans on mortgages reducible by small annual payments and by granting loans to facilitate the redemption of old servitude debts which had incumbered many peasant farms for centuries. The state or provincial banks, however, have lost this special character which has been largely taken over by the annuity or land-improvement banks, particularly in Prussia. The latter banks make loans to the peasant for paying off the feudal debts which incumber his farm.

While this particular purpose has been lost, the provincial banks have continued to some extent to serve the needs of owners of small and medium-size farms by granting them facilities for obtaining loans at moderate rates of interest, not subject to recall, and repayable in small

annual installments. The rates of interest range from 3½ to 4 per cent, with an additional charge of ¼ to ½ per cent for cost of administration. Amortization payments are, as a rule, compulsory, the minimum amounts being variously fixed at ½, ¾ or 1 per cent. The right of making additional repayments is also granted to the debtor by giving from three to six months' notice. Repayment of the whole farm-mortgage debt may also be made at any time after 10 years by presenting to the bank its bonds bearing the same rate of interest and for the same nominal value as the bonds issued to the borrower.

Funds for operating the provincial banks are mainly obtained by the issue of mortgage bonds. These are considered as safe securities for trustee funds. But working capital is also provided by deposits, by the amortization payments on mortgages, by accumulated funds, and by loans or grants from the state, province or district concerned. The bonds of this class of banks are, in most cases, redeemable by the banks themselves by drawings; but, as a rule, a certain time must elapse after an issue of bonds before a bank may include them in a drawing. Most of the provincial banks pay their loans in cash and not in bonds, as is the case with the mutual coöperative mortgage banks.

The provincial credit banks are usually exempted from stamp duties and court fees. For determining the standing of prospective borrowers, they can require information of local revenue authorities and other officials. To secure information about borrowers, some banks appoint private persons in different districts as their agents. They are thus enabled not only to secure the necessary information

concerning local farm properties, but are also able to bring credit facilities within the reach of farmers in their respective districts.

Since these banks grant mortgage loans on urban as well as rural properties, it is not always possible to determine the proportion falling to loans on farm mortgages. However, the statistics from eight of these provincial banks for the year 1909 show that out of a total of $240,000,000 definitely assigned to mortgage loans, more than $100,000,000 were on farm mortgages. The Hanover Provincial Mortgage Credit Bank, which grants mortgage loans on farm property only, had outstanding farm mortgage loans in 1909 amounting to more than $17,000,000.

These provincial, or semi-governmental, banks have successfully fulfilled their purpose. They were established in parts of Germany at a time when practically no institutions existed for granting long-time mortgage credit to farmers. They have especially served the needs of owners of small and medium-size farms who predominate in their respective localities. The principle of compulsory reduction of debt by annual payments to a sinking fund, which was not adopted by the coöperative mortgage credit associations till late in their history—that is, from 1820 to 1840—was quite universally applied by these banks from their origin, one of which dates back to 1765. The relative freedom from mortgage debt enjoyed by small and medium-size farm owners in several German provinces is attributed partly to this compulsory system of paying off mortgages by convenient installments. They have shown also that mortgage credit on the most favorable

terms may be granted to farmers on sound business principles. Not aiming at profits beyond the payment of expenses, they have been able to grant loans more cheaply than ordinary commercial banks; but, as a matter of fact, considerable sums have sometimes been applied to public purposes as a result of profitable operations by the provincial banks. By their strict business organization and careful state supervision, they secure the necessary supervision over their borrowers, bring their benefits more easily within the reach of farmers in every district, and protect investors from any danger of loss.

Austria

The economic affairs of Austria experienced a severe disturbance in 1848 and following years. This caused a serious retardation in the development of agricultural credit, particularly for the small farmer. The banks as a whole did little business in farm mortgages except the Imperial and Royal National Bank (now known as the Austro-Hungarian Bank), which was organized in 1856. But the work of this bank in farm mortgage credit was handicapped by reason of a regulation which prohibited the lending of less than $2,500 to any borrower. This regulation practically excluded the larger part of small farm owners from taking advantage of this bank's credit.

For farm mortgage credit in general, the provincial mortgage banks which were established on the Prussian model have been most satisfactory under Austrian economic conditions. The oldest of these provincial institutions are the Galician Realty Credit Society, founded at Lemberg in 1841; the Mortgage Bank of the Kingdom of

Bohemia, founded at Prague in 1865; the Austro-Silesian Realty Credit Institute, founded at Troppau in 1869; besides 14 others, or 17 provincial banks in all, established in the different provinces from 1876 to 1910. These banks are not run for profit and they have very little working capital which is raised by the issue of mortgage bonds. These bonds are secured by the mortgages themselves, by the assets of the bank, and, finally, by the guaranty of the provincial government the same as with the German provincial banks.

Up to 1910, these banks had issued bonds to the amount of nearly $390,000,000, about 80 per cent of which were issued on farm mortgages. In Austria, agriculture prefers the mortgage credit of the provincial banks to all other sources of credit because they offer the lowest and most stable rates of interest, because loans are repayable in small annuities, and because the loans cannot be called in. For these reasons the provincial banks are practically in the lead so far as farm mortgage credit is concerned. The interest on bonds runs from 3½ to 5½ per cent.

The provincial banks are characteristic of Germany and Austria, and they merit the attention of countries where the greatest possible freedom of the individual and the vigorous development of the state as a whole are to be found working harmoniously together.

STATE-ENDOWED MORTGAGE CREDIT BANKS

Hungary

There are in Hungary four institutions of different types which operate in the field of agricultural mortgage

credit. Although the government has aided these banks financially, not one of them is state-owned like the provincial mortgage banks of Germany. The Hungarian government has been content to draw up rules and regulations relating to them and to provide for certain rights of supervision. These banks possess, however, some characteristic features which distinguish them from all other banks in Europe, and for this reason they deserve a brief mention.

1. The Hungarian Land Mortgage Institute is the oldest bank endowed with state grants for promoting farm mortgage credit. Its labors are practically confined to owners of large estates. This institute was established in 1863 with a capital of about $840,000, of which sum $250,000 was contributed from the government treasury and the balance by 209 founders who cannot receive a dividend on their shares of more than 5 per cent. Later, the legislature endowed it with very important privileges, namely, special rights with reference to executions against its debtors, exemption of its mortgage bonds from the payment of taxes and stamp and other duties, and that its bonds were suitable for the investment of trust funds. A government commissioner is appointed to see that the articles of association are duly observed.

This bank was founded on strictly altruistic principles with the character of a coöperative society. After the payment of dividends on shares, all profits are added to the reserve fund which serves as security for the mortgage bonds issued by the institute. While the bank began with a nominal capital of $840,000, the founders had to pay only 10 per cent of their share, the remaining 90 per cent of the

subscribed capital having merely to be guaranteed by deed. The amount thus guaranteed was gradually remitted as the reserve fund enlarged, so that by 1875 the founders were finally exempted from any further obligations as to paying up of the remaining capital, the 90 per cent having been gradually paid out of the profits of the bank.

Besides the founders, the members of the institute include those large estate owners whose properties have been mortgaged with the bank for an amount exceeding the minimum prescribed for this purpose. The latter, however, cannot take part in the general meetings unless the mortgage loans advanced to them amount at least to $25,000. The other debtors are grouped by districts, and they have the right to elect a delegate to take part in the general meetings, at which the members and representatives of the smaller debtors have one vote each. As between the debtors, the only trace of mutuality is the duty each has to perform of paying a small sum into a mutual guaranty fund when they receive mortgage loans.

Since its foundation up to the close of 1912, the institute had granted 27,287 farm mortgage loans amounting to $214,692,597; its reserve fund was $12,497,666; and the mortgage bonds in circulation amounted to $97,265,000, the value of the estates mortgaged as their security being $357,700,000. During 50 years, only three mortgages had been foreclosed and the institute had never suffered any loss.

The founders have a right to vote at special meetings in the election of a president and a council of supervision

and on questions relating to amendments to the constitution. At general meetings they have the same rights as members as the debtors have. The council of supervision consists of 36 members who manage and control the activities of the bank. From the members district or local committees are formed to represent the bank's interests in the granting and protecting of loans.

2. The National Small Holdings Land Mortgage Institute was established in 1879 for the benefit of small farm owners. The state contributed $250,000 to its capital stock, and the legislature granted it the same privileges and favors as it had to the Hungarian Land Mortgage Institute. In organization, also, these two banks are similar so far as their members consist partly of founders and partly of the debtors themselves and as to the payment of not more than 5 per cent dividends on founders' shares. But they differ in that the founders of the small holdings institute have no special meetings, the council of supervision does not have so great authority, and the founders' shares are transferable subject to permission by the board of directors. In 1913 the founders' shares represented a value of about $2,125,000.

The original object of this institute was to provide small farm owners with both personal and mortgage credit. The attempt was made to create a network of coöperative credit societies for promoting the material interests of small landowners. Under this plan, twenty-six provincial savings banks and forty mutual credit societies affiliated with the small holdings institute. But the directors soon recognized the difficulties of providing personal credit by the aid of a loose organization of this kind, so that they

gradually relinquished the activity of the institute in the field of personal credit and, since 1904, have confined its work to farm mortgage credit only.

The small holdings institute is not privileged to foreclose and take possession of mortgaged land, in case the debtor fails to pay the amortization installments, without due process of law. It has, however, the special privilege of being able to ask the court for immediate auction without the usual and somewhat long preliminary proceedings. While the institute could take this course if the debtor fails in even one payment, still recourse to law is usually not taken until three semi-annual payments are overdue.

When mortgaged farms are sold at auction, the sale must be public and the land is sold to the highest bidder. The small holdings institute is not allowed to buy the land except when there is nobody else who would bid a price sufficient to cover the balance of the loan, overdue installments, expenses, and so on. Out of the selling price received at the auction, there are first paid the expenses of the execution proceedings, then the privileged indebtedness (such as unpaid taxes and duties to three years back), and lastly in succession the mortgagees are paid. The institute is first paid because it holds the place of first mortgagee in the land register; if there are second and third mortgagees, they are paid in succession. After paying all these expenses, the remainder of the selling price goes to the debtor whose land was sold. Should the new purchaser desire, he can assume the further amortization of the mortgage loan, in which case the institute receives in cash from the selling price only the overdue amortization installments, the interest thereon, and expenses. The remainder

of the loan taken over by the buyer is in that case deducted from the selling price of the mortgaged farm.

In 1912, only eleven mortgages were foreclosed and 173 debtors had legal proceedings brought against them out of a total of 45,000 farms mortgaged. Of the farms foreclosed, the bank held only three in 1913.

Since its establishment, this bank has made 66,264 loans on mortgage bonds for a total of about $72,000,000, or an average of nearly $1,100 to a loan. At the close of 1912, the institute's claims on mortgage loans amounted to $55,500,000. The institute makes loans as low as $75, but it does not guarantee to make loans exceeding $10,000 unless the requirements of all persons in need of smaller loans have been satisfied. The securities for the institute's mortgage bonds and debentures consist of mortgages on farms valued at $121,250,000 and reserve funds amounting to $3,833,000. The losses of the institute have been practically nothing.

3. An account has already been given of the Hungarian Central Coöperative Credit Society which was organized primarily to promote short-time personal credit among members of coöperative societies organized on Raiffeisen principles. This institution was endowed by a state grant of $250,000.

The demand for mortgage credit, however, on the part of owners of small farms having increased more rapidly than it could be supplied by the National Small Holdings Land Mortgage Institute, loans on mortgage payable by amortization were granted by coöperative societies to their members on bonds of various kinds. But even these advances did not meet the growing requirements of farmers

in Hungary, and it soon became necessary to make other mortgage loans on the amortization plan, particularly to small farmers. In this instance, the demand was that loans be made for sums representing at least two-thirds of the appraised value of the farm lands.

But difficulty was experienced in securing loans for sums corresponding to the higher proportion of the appraised land values. In fact, small farmers found greater difficulty in securing loans when they were required not for acquiring land, but for paying off debts at a high interest with which many farms were incumbered. In both cases the credit required is not strictly material credit, but it is rather more like personal credit. Loans exceeding 50 to 60 per cent of the appraised value of farms could only with safety be advanced to small farmers whose personal qualities, farm equipment, and all particulars as to their financial circumstances were thoroughly familiar to the creditor.

For the object of satisfying the needs of small farmers for mortgage credit of this kind, it seemed only natural that the central society should act hand in hand with its affiliated coöperative societies. About the year 1906, the Hungarian Central Coöperative Credit Society did actually begin to grant collective loans of this character, the method of procedure being as follows:

The local society, with the consent of the central institute, votes the small farmer in question a mortgage loan repayable by uniform annuities. This loan may not exceed 75 per cent of the appraised value of the farm purchased by him or which he desires to disincumber of debt already on his land. Part of the loan granted by such

coöperative society—in no case more than 50 per cent of the farm's value in question—may be ceded to one of the two preceding mortgage credit institutes, but preferably to the National Small Holdings Land Mortgage Institute. This part of the loan is then entered in the land registry with priority of claim in the manner prescribed by the act relating to mortgage bonds. The remainder of the loan is ceded with deferred claim to the Hungarian Central Coöperative Credit Society. The small holder stands as debtor to his own coöperative society, to which he must repay the loan in equal annual installments. These annual payments are forwarded to the central society which divides the annuities and transmits to the land mortgage institute the part which is its due. This system renders it possible for the small farm owner to obtain a comparatively large loan on easy terms on mortgage bonds. Loans of this kind may be repaid by the debtor at any time either in installments or in a lump sum. Experience has shown that small farmers in Hungary rarely need mortgage loans longer than ten to twenty years. From September, 1905, to the close of 1912 the affiliated societies, in coöperation with the central society, have advanced more than $16,500,000 in collective mortgage loans on farms comprising 185,335 acres.

4. The desire for land ownership among small farmers in Hungary, which has been designated as "land hunger," often led them to purchase additional farms under conditions which later involved some of them in ruin. As a means of encouraging farm ownership among this class and of protecting them from unwise ventures, the government aided in the endowment of another altruistic mortgage

credit institute in 1911. This is known as the National Federation of Hungarian Land Mortgage Institutes, which was founded in conjunction with the two land mortgage institutes previously mentioned and with the Hungarian Central Coöperative Credit Society. The state contributed $2,000,000 towards its foundation, and the three institutes mentioned contributed together $1,750,000 more. Besides the $2,000,000 endowment, the government may place out of its resources at the disposal of the institute $2,500,000 worth of various securities for the purpose of creating a guaranty fund as security for the debentures issued by the institute. Its administrative and working expenses are also within certain limits borne by a state settlement fund. The expert work done in connection with the institute's transactions is performed free of charge by officials of the ministry of agriculture. The institute enjoys the same exemption from taxes and dues as the central coöperative credit society; and, in carrying out its land settlement policy, the parties concerned also are exempted from the payment of certain dues.

Several very important duties are assigned to the National Federation of Hungarian Land Mortgage Institutes. One duty is to assist people with little or no means who are engaged in farm work. It does this by supplying the purchase price of common pastures bought by parishes so that the poorer farm laborers or small farmers may keep their cows, horses or pigs cheaply during the six months of summer and autumn. In many instances, these animals not only help to maintain the farmer's family, but a certain amount of money is also sometimes raised by the sale of young animals.

Mortgage loans are also granted to parish and county councils for the erection of farm laborers' dwellings, to which a small piece of land is attached varying in size from one-sixth to one-fourth of an acre. These holdings the farm laborers may purchase on easy terms. This renders it possible for them to live in their own homes, and experience has shown that these homes have a remarkably favorable effect on the minds of the poorer classes of rural communities.

The institute also acquires estates from large proprietors, prelates and real estate owners which it parcels out in conformity to the needs of farmers in the respective districts. In these transactions the institute practically only covers its expenses. But, by selling these lots on mortgage, it creates new farm holdings and thus makes it possible for the industrious farming classes to own their farms and increase their wealth. The plans regarding land policy transactions are subject to the approval of the minister of agriculture, while the conditions relating to credit transactions are determined by the said institute in conjunction with the ministers of finance and agriculture.

The institute did not begin its activity until 1911. During 1912 it purchased twenty-one estates comprising 18,500 acres, of which the institute sold on mortgage 10,400 acres to 1,001 purchasers. Two large estates, consisting of 23,700 acres, were also leased by the institute, were cut up into farms of various sizes, and were subleased to 1,930 farmers. The institute also took over the management of a manor farm comprising 33,000 acres, on which 8,443 lessees were engaged in farming in 150 different parishes.

Moreover, the institute granted to 29 parishes mortgage loans amounting to $950,000 for the acquirement of pastures, as well as loans to four parishes and one municipality for the erection of farm laborers' dwellings.

In all these transactions, the National Federation of Hungarian Land Mortgage Institutes makes no charge for negotiation, legal expenses, or surveying; in fact, in all lines of its activity it continues to aid its clients in business matters free of charge. The institute also takes care that the farmers manage their farms in such a manner as to insure them the largest possible income. By putting large estates on the market in small and medium-size farms, this institute is helping to solve the problem of more production and is enabling a greater number of farmers to own their own farms. These efforts also have a tendency to prevent any confusion which might arise from a sudden change in the present conditions of land tenure in Hungary.

The loans required by farmers for purchasing lots sold by this institute are advanced in the first instance by the local societies affiliated with the Hungarian Central Cooperative Credit Society. In return for an entry in the land registry with priority of claim, the local societies cede the loans to some land mortgage institute; in return for an entry with deferred (second) claim, they cede them to the national federation; and, finally, in return for a deferred (third) claim, they cede them to the central credit society. The manipulation of these collective loans is carried out by the last-named institute. Loans of this kind may not exceed 75 per cent of the purchase price of the estate. The money required for the part of such loans falling to

its share is obtained by the national federation institute by the issue of debentures.

While the bulk of the capital of the National Federation of Hungarian Land Mortgage Institutes was the gift of the state, the government does not own the institute. At general meetings the state cannot have more votes than the other founders together. However, in view of the fact that the institute's activities are seriously concerned with the land policies of the government, the legislature has insured the government a somewhat greater influence over it than with the other altruistic mortgage banks. This influence is exercised as follows:

The president, one member, and one supernumerary member of the board of directors are appointed by the minister of finance; and the vice-president, one member, and one supernumerary member of the said board are appointed by the minister of agriculture. These members of the board of directors are delegated from among the officials of the respective ministries. But these official representatives form a minority of the board only. They, however, may suspend the resolutions of the board by protest, in which case the decision rests with the government. To conform with its peculiar objects, the organization of this institute is neither a joint-stock company nor a coöperative society. Its members may consist only of state officials, representatives of the three altruistic institutions concerned in its foundation, and such persons who subscribe for founders' shares, the value of which is $25,000 each. The owners of shares are not entitled to recall their capital at any time during the existence of the institute, nor can they transfer their shares without the consent of

the board of directors and the minister of finance. Only in case either of the institutes concerned in the foundation has to be dissolved can any exception be made to this rule. No founders' shares are entitled to more than 4 per cent dividend.

The issue of mortgage bonds by these four types of institutions is governed by law which provides that a special reserve fund must be created which shall represent at least 5 per cent of the value of the mortgage bonds issued and must in any case amount to at least $100,000. If either of these mortgage institutes desires that its bonds should be tax free and enjoy the privilege of being accepted as investments for trust funds, the special reserve fund must amount to not less than $750,000. Such reserve fund serves exclusively as a security for the owners of mortgage bonds as a body, and no other person or institution can have any claim on it until the claims of mortgage bondholders have been satisfied. The law enumerates the securities in which such a reserve fund may be invested.

But mortgage bonds may only be issued for loans which do not exceed 50 per cent of the appraised value of the farms mortgaged. The mortgages serve as security for the totality of mortgage bonds issued. The law stipulates that these institutions shall submit to the court and publicly advertise a detailed statement of accounts every six months. In certain cases the law entitles mortgage bondowners to demand an order of the court for the examination by experts of the management of the business of any particular mortgage credit institute.

To facilitate the purchase and development of small

farms, the Hungarian legislature authorized the mortgage banks, under certain prescribed conditions, to issue not mortgage bonds, but bank debentures on the basis of loans advanced for the purpose of purchasing estates and breaking them up into small farms. With debentures, loans can be made up to two-thirds of the appraised value of the property. The legislature endeavored to secure the safety of these debentures as an investment by making their issuance dependent upon conditions to all intents and purposes quite as severe as those controlling the issue of mortgage bonds. Though not available as investments for trust funds, mortgage debentures are declared by law as suitable for all other purposes of investment, and they are exempted from taxation the same as mortgage bonds.

Loans on mortgage bonds and debentures are usually granted for a period of fifty years and are repayable by semi-annual amortization installments. These payments generally include the part of the principal due, the interest, and a small sum to cover working expenses. The mortgage institutes reserve the right to recall loans when the debtor does not fulfill his obligations punctually or when the value of the farm property has decreased to such an extent as to endanger the repayment of the loan. When the debtor elects to repay the loan either in part or in a lump sum, which he has a right to do at any time instead of abiding by the original amortization plan, he is usually bound to pay a certain additional compensation. This amount differs with the various mortgage institutes, but as a rule it does not exceed 2 or 3 per cent of the sum redeemed in this manner.

The mortgage bonds and the debentures secured by

mortgage are secured by the totality of the farm mortgages. By the law each institute is bound to take care that, if the amount of outstanding loans decreases, a sufficient number of mortgage bonds or debentures shall be withdrawn from circulation by an extraordinary drawing to provide for the total nominal value of the mortgage bonds or debentures not exceeding the total amount of claims on loans.

These different mortgage credit institutes are supposed to pay their borrowers in mortgage bonds or debentures. As a matter of fact, however, instead of handing over securities and leaving it to the debtors to sell them where and how they can best do so, these institutes reserve to themselves the right of realizing the securities. As this generally involves expense and a slight decrease in market price on the nominal value of bonds or debentures, the bank usually deducts a certain percentage to cover losses and expenses. In the case of these altruistic institutes, this deduction is barely in excess of the actual loss incurred by the sale of the bonds or debentures, whereas with joint-stock banks the practice is to give the debtor from 1½ to 3 per cent less than their market value.

While mortgage loans advanced by these four types of credit institutions are not confined to farm properties, still the statistics show that the latter greatly preponderate. In 1911 the total outstanding claims on mortgage loans by these banks amounted to $944,000,000, of which nearly $614,000,000 had been loaned on farm properties. At the same time, the said institutes had nearly $634,000,000 worth of mortgage bonds in circulation. These figures, however, do not include the mort-

gage loans advanced by the coöperative societies under the control of the Hungarian Central Coöperative Credit Society, which loans are practically confined to small and medium-size farms.

Russia

Russia has endowed two types of land-mortgage banks for aiding both peasants and the nobility to secure better credit facilities.

The Peasants Land-Mortgage Bank was established by the government about 1882 for the purpose of enabling villages and communes to acquire land. Under this system, a village group of peasants would apply to the bank for money to purchase land from the landlords, the entire community being held responsible for the loan. The payments were divided among the members of the community in proportion to the ability of each family to pay.

About 1895 this bank was granted special capital by the government with which to purchase estates of landlords, divide them up into small farms, and sell the farms to individuals. The bank also loaned money to individual peasants, holding them individually liable. By this policy the Peasants Land-Mortgage Bank, as the instrument of the government, aimed to establish peasant ownership in the place of community ownership, with the peasants living on their own farms. The farms established by the Peasants Land-Mortgage Bank vary materially in size in different parts of Russia, the general average being from 21 to 27 acres, though in some places, as in the Government of Kharkov, the peasant farms are as large as 80 acres.

Between the years 1907 and 1912, some 16,000,000 acres of land had been purchased by the peasant bank, making a total of about 37,000,000 acres purchased during the thirty years of its existence. About 75 per cent of all sales of land for farms by the land-mortgage banks in Russia is now made to farmers directly, the balance of sales still being made to villages and communes.

In 1906, it was agreed that all lands granted to the peasants at the time of their liberation from serfdom in 1862 should be considered as having been paid for, and the peasants were then allowed to mortgage this land which hitherto had been forbidden them to do. Mortgage credit was granted to them by the peasant bank on fairly liberal terms. The general policy is to establish a period of repayment extending over 55½ years. The rate of repayment allowed to peasants, which includes the annual amortization payments, interest, cost of administration, and other expenses, amounts to only 4½ per cent. Any costs above this rate are paid by the government. Moreover, the peasants can also borrow money of the government, the funds for this purpose being secured by the issue of bonds. The net interest rate on these bonds frequently amounts to 5 or 6 per cent, so that the government aid, while not costly, is of material benefit to the peasant farmers in Russia.

In addition to this type of land-mortgage bank, there was also established in 1882 the Nobility Land-Mortgage Bank. This institution does business only with the nobility, the purpose being to grant mortgage loans on their farm lands. The same foundation capital was granted by the government for the endowment of this bank, and

it conducts business with noblemen in the same way and on the same terms that the land-mortgage bank does with the peasants.

While this bank was established strictly for the nobility, there has been some modification in recent years. Now persons who have purchased land of the nobility which had been mortgaged by this bank have the privilege of settling the mortgage on the property purchased within 10 years. In fact, by recent consolidation of their activities, the Peasants Land-Mortgage Bank and the Nobility Land-Mortgage Bank are practically one institution, though it maintains separate departments for conducting business with these two classes.

CHAPTER VII

NON-COÖPERATIVE FARM MORTGAGE OR LONG-TIME CREDIT—Continued

B—Farm Mortgage Credit by Joint-Stock and Savings Banks

The ordinary joint-stock or commercial banks, which are associations of lenders organized for profit-making, as well as the different classes of savings banks, have extended their mortgage credit to farmers in many European countries. In many instances, the percentage of mortgage loans on farms and other rural properties is not large as compared with the total amount of business done by these banks. But the importance of agriculture and the increasing security of farm loans have made this kind of investment much sought after in recent years by various banks and even by large insurance societies, so that the amount of farm mortgage business is gradually increasing. As a rule, however, these kinds of banks operate in districts where there are no coöperative, provincial, or state-endowed banks, since they could hardly compete with the latter banks, with their lower rates of interest and often gratuitous services in behalf of farmers, and continue to pay satisfactory dividends on their shares. Some facts, therefore, in regard to the work of these banks among farmers are well worthy of mention.

LOANS BY JOINT-STOCK AND SAVINGS-BANKS

Germany

There are in Germany thirty-eight joint-stock mortgage banks organized under the provisions of the imperial mortgage bank act of 1899. Any bank of this kind is free to extend its business over any part of the kingdom. The business of these banks has greatly developed during the past thirty years. The total of their outstanding mortgage loans in 1911 was some $2,750,000,000. But of this enormous sum only 6 per cent, or $165,000,000, had been loaned on farm mortgages.

The law under which these banks operate has laid down special regulations regarding mortgage loans on farms. The act requires that when bonds are issued upon the security of farm mortgages, at least half the total amount of this class of loans advanced by any bank must be made subject to amortization or sinking-fund payments of not less than one-fourth of one per cent. As a matter of fact, the larger number of banks require such amortization payments on all their farm loans and have fixed the minimum sinking-fund payment at ½ per cent.

Farm mortgagors are also accorded the right, under the sinking-fund plan, to repay their loans in whole or in part before the close of the stipulated period, and may only waive such right for a period not exceeding ten years from the date of loan. By the law, no agreement permitting a bank to call in a loan is valid. Minimum loans are fixed by some banks, and the maximum loans may not exceed three-fifths of the appraised value of the farm except when the state or province concurs, in which case

loans may be granted to two-thirds the value. Loans are made on first mortgage only and must be paid in cash as a rule, payment in bonds being permissible only when the bank's constitution expressly permits it and the borrower also consents. In the latter case, specific authorization must be entered in the contract that the borrower may repay in cash or in bonds of the bank at his discretion.

Bonds are issued of various denominations ranging from \$25 to \$1,250. The bonds of joint-stock mortgage banks are not recognized as trustee investments except in the special case of six mortgage banks in Bavaria; but almost without exception they are accepted as first-class security by the German Imperial Bank. Mortgage bonds may be issued up to fifteen times the amount of the bank's paid-up capital and reserves; under special circumstances twenty times the amount is permitted.

According to the law, every mortgage bank is obliged to publish in the Official Gazette and in the newspapers selected for its regular advertisements detailed statements twice a year showing its financial condition.

Savings-banks in Germany are very important for granting mortgage credit to farmers. In 1910 their total investments in farm mortgages were estimated at about \$850,000,000. They are preëminently the sources of mortgage credit for small and medium-size farmers, whom they accommodated, especially in western Germany, at a time when no other mortgage banks were open to them. In effect, the savings-banks now provide nearly every district with a source of mortgage credit for farmers.

The larger part of savings-banks in Germany are established, managed, or supervised and guaranteed by the

communal, district, or urban authorities where they are located. Apart from these public authorities, the savings-banks have no legal standing. At the end of 1910 there were 2,844 public savings-banks in Germany, not including those in Brunswick, with 7,404 branches or agencies, and 228 other savings-banks with 294 branches or agencies. The total deposits of all these banks amounted to about $4,200,000,000, and a great part of this money is open to the credit of farmers. The interest paid on deposits ranges from 3 to 4 per cent with the different banks, and these comparatively high interest rates on deposits make the rates on farm mortgages somewhat higher than with many other kinds of mortgage banks. In 1909, about 36 per cent of mortgage loans made by savings-banks were at 4 per cent, while 56 per cent were more than 4 but not exceeding 5 per cent.

So far as farm mortgage credit is concerned, the savings-banks are at a disadvantage. Loans are liable to be recalled because, under certain circumstances, savings-banks have to be in a position to realize their assets at short notice. Moreover, they reserve the right to raise the rate of interest on loans in order not to become losers in the event of an increase in rates paid on deposits. The same difficulty occurs in the case of savings-banks making mortgage loans on the amortization plan. In recent years, however, this difficulty has been partly met by means of other funds than deposits, so that there has been a considerable increase in the volume of farm mortgage loans granted on the sinking-fund plan. In 1909 nearly 25 per cent of outstanding farm mortgage loans granted by Prussian savings-banks were made on these conditions.

Most savings-banks restrict their mortgage loans to farms within their own or neighboring districts. On farms not within such limits, less money is generally loaned in proportion to the appraised value of the property. A Prussian ministerial order provides that the lending of money by a savings-bank outside its customary area is only permissible when a fixed period of redemption is stipulated and when such mortgages do not exceed one-fourth of its total mortgage investments. Under these circumstances, much of the money deposited with the savings-banks in particular areas is thus ready for investment within the same areas. The usual limit for mortgage loans on farms fixed by savings-banks is from one-half to two-thirds of the appraised value. Many banks, however, with a view of encouraging the creation of small farms, make loans up to three-fourths or even five-sixths of the value of newly purchased farms within their districts, provided that at least one-half per cent of the capital is to be repaid annually. Under special circumstances, this amortization payment may be waived for a period of two years.

The spread of these communal and district savings-banks for serving the mortgage needs of the rural population has been promoted by the central authorities, especially those who are responsible for agricultural matters. They have also urged these banks to adapt their conditions of making loans to suit the needs of farmers. A special advantage of these banks is that they provide farmers with a public mortgage credit institution in their own vicinity and they facilitate personal relations between borrower and lender. As a result of its special knowledge

of local conditions and land values, a savings-bank can generally dispense with a special valuation and save its costs. The expense of supervision can also be saved. For the small farmer the procedure is much simpler and less costly than when bonds have to be marketed and other formalities satisfied. By these means the savings-banks in Germany have aided mortgage credit greatly among farmers.

Austria-Hungary

For the promotion of credit among farmers in both Austria and Hungary, the legislatures of the respective countries endowed the Austro-Hungarian Bank with the privilege of granting mortgage loans, of issuing mortgage bonds, and of exercising the same favors granted to the public land-mortgage institutes previously outlined. However, the mortgage loans of this bank were limited to $75,000,000, of which amount the bank can appropriate three-fifths, or $45,000,000, for loans on farm real estate.

In mortgage loans to farmers, joint-stock and savings-banks in Hungary far exceed the advances of any other class of banks. In 1911, these banks had loaned $743,000,000 on mortgages, of which nearly $445,000,000 had been advanced in mortgage loans for agricultural purposes. The joint-stock credit banks almost without exception show a great preference for the issue of mortgage bonds and debentures, though only in the case of a very small proportion can they be described as predominantly mortgage credit banks. The larger part of these banks engage in all branches of credit business and commercial banking. In 1911, the number of these joint-stock banks

in Hungary alone amounted to 1,869. The nominal value of mortgage bonds issued by these banks which were in circulation that year was nearly $471,000,000.

A considerable business in farm mortgage loans is also done by the rural banks, which are usually called "savings-banks," though in reality they can hardly be regarded as such. In Hungary, the acceptance of savings deposits by a bank is not subject to any kind of concession; nor is the management of the affairs of savings-banks subject to any sort of legal restrictions. The savings-banks are joint-stock companies exactly similar to other banks, and it is left to their discretion to engage in any branch of banking just as other banks do. The latter, almost without exception, also accept savings deposits. This far-reaching liberalism of the Hungarian mercantile law has, no doubt, become the source of many evils, particularly as the savings deposits of rural banks are frequently invested in loans not easily recalled and of a risky nature. But this freedom of action has been an undoubted blessing to agriculture. As a result of competition, the country banks are obliged to pay on savings deposits far too high a rate of interest to allow of their lending these deposits to farmers at a low interest rate. But even this money from country banks is always cheaper than loans from private capitalists. From the point of view of mortgage loans on farms, this money has been practically indispensable notwithstanding the great development of banks issuing mortgage bonds.

The usual method employed by rural savings-banks which advance mortgage loans to farmers in Hungary is to require six months' bills that are prolonged for certain

periods, which are either determined beforehand or are left indeterminate, and to secure their claims by a mortgage entry in the land register.

This kind of mortgage loan is certainly a danger to farmers owing to its being recallable. But in practice the danger is not so great as one might imagine, although about three-fourths of the loans of country savings-banks are of this character. It does sometimes happen, particularly during financial crises, that some savings-banks call in their mortgage loans; but this is the exception rather than the rule. In general, the mortgage loans to small farmers made by the savings-banks are acknowledged to be the safest kind of investment. The number of country savings-banks in Hungary is so large that, if one of them recalls a mortgage loan of this kind, some other bank is always ready to take over the claims. In critical times this is often done with the assistance of some big bank, or even with the help of the government itself when the notice of recall given by the country savings-bank involves the interests of a large number of farmers. As a general principle, this state of things is certainly open to objections; but, as a matter of fact, there has been a decrease in the number of recallable loans granted by country savings-banks during the past thirty or forty years.

Italy

There are four mortgage credit institutions granting farm mortgage credit in Italy, namely, the Italian Land Credit Institute at Rome, the St. Paul Institute of Charity Organizations at Turin, the Monte dei Paschi at Siena, and the Sardinia Land Credit Bank at Cagliari. The

coöperative farm mortgage credit system does not exist in Italy. By royal decree, however, certain institutions may deal in farm-land credit, among which may be mentioned landowners' mutual societies which own real estate the value of which is not less than $1,000,000, institutions and societies whose paid-up capital amounts to $2,000,000, and also similar organizations whose capital amounts to more than $400,000 if they are located in districts where no farm-land credit institution exists.

These banks are supervised under the most minute statutory regulations. They are permitted to grant loans on first mortgage to a maximum of half the value of the real property, the loans to be extinguishable on the amortization plan for periods of not less than ten nor more than fifty years. These annual payments must include the amortization installment, interest, income tax, commission, management expenses, and the mortgagor's share of revenue and stamp duties which are paid directly on his behalf by the institutions. The debtor, however, may pay off the whole or any part of the mortgage at any time within the term of the loan.

The banks obtain the funds necessary to carry on these operations by the issue of mortgage bonds which bear interest at varying rates—3½, 3¾, 4, 4½, and 5 per cent—being designed to lessen money-market fluctuations. The interests of bondholders are protected by the fact that all the bonds issued are guaranteed by the total mortgages held.

Besides the farm mortgage credit institutes, there are three large savings-banks, those of Milan, Bologna and Verona, which advance loans on farm mortgages. The

first two may conduct business in any part of the kingdom of Italy, while the last named is limited to the Venetian provinces and Mantua.

In Italy there is a fundamental difference between a commercial bank and these savings-banks. The commercial bank obtains its capital from the shares subscribed by shareholders; whereas the savings-banks are founded with donations made by the communes and provinces as well as by benefactors' foundations. They are, therefore, regarded as public-utility corporations which, having no shareholders, make no distribution of dividends. But the banks thus founded receive savings deposits, on which they pay a rather lower rate of interest than they charge the farmers who receive loans. The profits thus made are used to build up reserve funds which enable them to carry on their work.

The interest on farm mortgage loans is generally from 3½ to 4 per cent. To this must be added the charge for amortization and incidental expenses. The Milan Savings Bank charges 4.88 per cent on its farm mortgage loans which is inclusive of everything; whereas the charge made by commercial banks for such loans is 5.77 per cent. The public-utility savings-banks of Italy, therefore, are of considerable benefit to farmers in the reduction of interest rates.

The sum of the mortgage bonds issued on farm loans is guaranteed by the sum of the mortgages taken, all of which must be on first mortgage. With regard to the degree of security, investment in mortgage bonds is equal to that of government bonds in Italy, not only in public estimation, but legally. In fact, those societies, ethical

institutions, benevolent associations, and all other organizations which are permitted by law to invest part or the whole of their funds in securities issued or guaranteed by the state, have the right to invest from one-fourth to the whole of their funds in bonds issued by these mortgage credit institutes.

As to the prices of these farm mortgage bonds, while it is not exactly true to affirm that they are always higher than state bonds, it can be affirmed that mortgage bonds always maintain a high level, yet as a rule they do not go above par. Account has to be taken of the variations in the rates of interest which range from 3½ to 5 per cent. In recent years, when there has been a rising tendency in all rates of interest, the farm mortgage bonds issued at low rates—that is, 3½, 3¾, and 4 per cent—have been sensibly depressed. For this reason, the institutions of farm mortgage credit, which have the right to issue bonds of various types, are rapidly suspending the issue of bonds at low rates and are issuing bonds at the higher rates of interest.

At the beginning of 1912, the total amount of farm mortgage loans outstanding by these seven banks was considerably more than $100,000,000.

The farm mortgage credit banks in Italy carry on their work mainly for the purpose of helping the landowner to improve his lands and to place him in a position to farm on an economic basis. One of the most striking purposes of these institutions is to grant mortgage loans on farms so as to enable the direct heirs to an estate, all of whom have an equal claim on the land under the Code Napoleon, to settle their claims on a money basis. In this manner

the farm is kept undivided, one of the heirs assuming the mortgage and operating the farm. To promote the settlement of farm-land claims, such institutions loan money on first mortgage at 4 per cent.

Some of the savings-banks have introduced a novel feature of great benefit to farmers. This is by granting loans on mortgage security in the form of open accounts. The borrower under this system is given a check book, and he may or may not withdraw all the money he is entitled to by his mortgage. The borrower can at any time return to the bank any part of the loan which he does not use, paying interest only on the money actually withdrawn. This is of great benefit to the farmer in that it frequently allows him the use of ready money which he might otherwise have to borrow on personal credit. One object of the savings-banks is to promote agriculture, and for this reason special advantages are offered to farmers who can show that the money is required for farm-improvement purposes. One advantage is that the money is loaned at a lower rate of interest.

These different features of the Italian system of farm mortgage credit have been the means of improving agricultural conditions in all parts of the kingdom.

Belgium

The agricultural mortgage banks of Belgium promote farm mortgage credit somewhat differently from any other kind of mortgage bank.

Most farm lands in Belgium are mortgaged on the system of being redeemed in a certain number of years. The agricultural mortgage banks were created to facilitate

the paying off of mortgages and to supply farmers with money to buy land. But this type of bank does not lend its own funds, but it guarantees for a small commission the loan of an individual borrower to the General Savings-Bank which advances the money. The agricultural mortgage bank gives to the savings-bank the security furnished by the borrower as well as its own guaranty. The borrower pays 4½ per cent on a mortgage running commonly for 30 years on the amortization plan. The borrower can pay in full at any time without notice and without having to pay any commission.

Bonds are issued on a mortgage to the same amount, commonly in denominations of $20. These bonds bear interest at 3.6 per cent. They are not listed on the exchange, but they sell readily at about par. These bonds are generally purchased by agricultural organizations. The farmer pays 4½ per cent, the bonds sell for 3.6 per cent, and the General Savings-Bank keeps the difference as its profit. The farmer can get the money on his mortgage as soon as it is drawn up, because the bank has bonds on hand and is selling them all the time.

There are fifteen agricultural mortgage banks in Belgium which thus carry on business in farm mortgages through the General Savings-Bank. In 1910, these mortgage banks made loans amounting to $580,000 and had outstanding mortgage loans amounting to $2,600,000. The General or Federal Savings-Bank is strictly a state institution, corresponding to the postal savings-bank of some countries. In Belgium it has no share capital. The officials are paid out of the profits made on deposits, the excess profits being divided among the depositors.

Holland

The system of mortgages as practiced in Holland has some serious defects, especially as it applies to small rural properties. For farm mortgages the system is expensive; where mortgages are held by individuals rather than by banks, there is no guaranty against premature foreclosure; and, lastly, it is exceedingly difficult to pay off a mortgage before maturity.

To meet this difficulty, especially among farmers who belonged to coöperative societies, an institution was founded at Eindhoven in 1908 for handling farm mortgages. The administration of the Coöperative Central Bank of Eindhoven, an outgrowth of the Peasants' Christian League which admits only farmers to membership, had reported that a large part of the savings deposits was invested by local branches in long-term mortgages. This had been done because the members had been desirous of securing long-term mortgage credit cheaply. The Raiffeisen rural credit banks, however, had found it very inconvenient to have their funds tied up in long-term mortgages, and the administration of the central bank had decided to establish a rural mortgage bank to take this business off the central's hands.

Notwithstanding its coöperative origin, the mortgage bank of Eindhoven was incorporated as a stock company and its articles of incorporation were approved by royal decree on October 7, 1908. The capital was $400,000, of which $80,000 were subscribed by the coöperative central bank and the local savings-banks. The management of the new bank has been temporarily intrusted to the

Central Savings-Bank until the two institutions can be separated.

The members of the Central Coöperative Bank of Eindhoven and its branches may borrow money on mortgage of this rural mortgage bank. Loans are not granted for more than 50 per cent of the assessed valuation of farms, except in cases in which the local savings-bank is willing to indorse the mortgage, in which case the amount can be raised to 66 per cent. The term of the mortgage credit is forty years or longer, if necessary. The mortgagor is obliged to pay in at least 1 per cent of the principal annually, but he also has the privilege of paying off any part or all of the mortgage at any time. The rate of interest is 4¼ per cent which includes one-fourth per cent for administration expenses. No commissions and only the most necessary expenses, such as taxes and postage, are incurred.

The dividends paid on stock were 1½ per cent the first year and 2½ per cent in 1910. In order to promote the advantages of this form of agricultural mortgage credit among farmers in Holland, inquiries have been made as to what extent the Postal Savings-Bank and the State Insurance Bank could assist in this work by placing some of their reserves on notes of the rural mortgage bank. In the case of the Postal Savings-Bank, it is believed that it will lend money to the rural mortgage bank for long terms at reasonable rates of interest.

The extension of this system of rural mortgage credit is being planned for the benefit of small farmers in Holland. A commission appointed to look into this matter has reported that this system of agricultural credit will

greatly improve the economic condition of the rural population.

France

The Crédit Foncier, or Mortgage Credit Bank, of France, grants mortgage loans to farmers and on rural properties, though about three-fourths of its mortgage loans are made on the security of mortgages on houses and town property.

This great financial institution has existed since 1852. It is subject to the legislative provisions of the French government which appoints its governor and the two vice-governors.

The mortgage loans on farms which the Crédit Foncier grants are made in three forms: First, a short-term loan on mortgage not to exceed a period of nine years. These loans are not repayable by amortization and cannot be repaid until the expiration of the term. Second, long-term loans which run from ten to seventy years. These are repayable by amortization and can be repaid in full at the pleasure of the borrower before the expiration of the term for which they are made. Third, current account on mortgage guaranty, or the opening of what is called a mortgage line of credit.

Under the last-named system the borrower is given a line of credit which he may use in the same manner as any ordinary banking account. Such an account is only granted for a maximum period of nine years.

The rate of interest on farm mortgage loans in 1913 was 4.65 per cent, while the rate on current account with mortgage guaranty was about 4.95 per cent. The security

for the loan is a mortgage on the property itself, which, on arable land, is not more than one-half the appraised value. In the case of loans on vineyards and forest lands, which are regarded as great risks, the loan cannot exceed one-third the appraised value of the property. The mortgage loans on the amortization plan are repayable in semi-annual installments.

The share capital of this joint-stock bank was originally fixed at $5,000,000, divided into 50,000 shares at $100 each. For the carrying on of mortgage loans, the bank obtains the capital which it requires by the issue of bonds. The law prohibits the issue of bonds in excess of the value of the mortgages taken as security. The farmer, however, in taking out a loan is not paid in bonds but in cash.

In the case of current-account mortgage loans, every six months the account is checked up and interest is charged only on the amount of money actually used.

The Crédit Foncier has been of great assistance to agriculture. Before the bank was established, a farmer or landowner who wanted to borrow money to improve his land or carry on any productive enterprise had to resort either to the small bank, which charged high rates of interest, or to a notary and get out a mortgage bond which was also a very expensive method. Under this system he borrowed the money at 5 per cent interest, but the costs were very high; and, until the Crédit Foncier was founded, he could not repay the loan on the amortization plan. Now, however, a farmer, who desires to borrow $10,000 for farm improvement on mortgage, may go to the Crédit Foncier and secure the money on a mortgage loan say for thirty years. By paying 4½ per cent interest

and 1½ per cent amortization, the farmer will have repaid the whole debt of $10,000 at the end of thirty years. Under the old straight mortgage system, farmers have paid 5 per cent interest all their lives and at their death the only way to satisfy the mortgage has been to sell the farm over the heads of their families. This distress has been relieved by the Crédit Foncier.

LOANS BY MISCELLANEOUS BANKS

Many other kinds of institutions, which primarily carry on a general commercial banking business in certain European countries, also grant mortgage loans for farming operations, for land improvement, and for various other objects directly related to agriculture. For example:

There are the land-improvement annuity banks of Germany, particularly in the Prussian provinces, which were founded for providing mortgage credit for land improvement that should be adequate in amount, not subject to recall, based on the amortization plan, and bearing moderate interest.

There are, also, the private land-mortgage banks of Russia, established on the amortization system of making payments on mortgage loans. The farm mortgages issued by these banks run for periods ranging from ten to sixty-six years at 4 per cent interest.

In like manner, the twenty-three canton banks in Switzerland, which are state-controlled institutions, make mortgage loans on farm properties. Some of these banks make mortgage loans on the amortization plan, while others make straight mortgage loans only. The annual payments required by these banks for interest, amortiza-

tion, and cost of administration range from $4\frac{1}{2}$ to $5\frac{1}{2}$ per cent.

The Land-Mortgage Bank of Spain has authority to supply farm mortgage credit at an interest rate not to exceed 6 per cent, and this bank has the exclusive privilege of issuing land-mortgage bonds. This bank made mortgage loans in 1911 to the value of $2,212,825, of which amount nearly one-half, or $1,085,517, was granted on farm mortgages. There are also private land-mortgage banks which make loans to farmers in Spain. But neither the public nor private land-mortgage banks afford much service to small farmers, although they have been of considerable benefit to large proprietors. Two private land-mortgage banks have the right to make mortgage loans to local credit societies in Spain.

CHAPTER VIII

CHARACTERISTICS OF EUROPEAN MORTGAGE CREDIT

From the foregoing summary of the organization of coöperative and non-coöperative farm mortgage credit, it is evident that all classes of farmers in Europe are amply provided with credit facilities of this nature. Many of these agencies are mainly of a public or non-profit seeking character. They grant loans up to one-half or two-thirds of the property valuation on first mortgage at moderate and unchangeable rates of interest, not subject to recall, and repayable by small annual installments to sinking funds. In addition, mortgagors have the privilege of paying off the whole or a part of the mortgage indebtedness at any time or by giving short notice.

The joint-stock mortgage banks and some of the savings-banks form an exception as regards the making of profits. Some of the savings-banks, although in theory they do not make mortgage loans on the amortization plan, do as a matter of fact lend considerable sums against reducible mortgages, and, as regards the balance, are seldom forced to exercise their right of recall. Farmers borrowing of these institutions seldom have to worry when the time approaches for the mortgage to become due. Renewals are usually made by the same or another bank without much trouble or expense. Although not aiming to make profits, these banks often realize surpluses which

the state, provincial or savings-banks are able to contribute to their guaranteeing authority for public purposes. In like manner, the Landschaften, or coöperative farm mortgage associations, are able to apply substantial sums toward relieving the indebtedness of their members as a result of profits made by their local banks and in other ways.

The organization of European mortgage credit presents a further important feature of being decentralized. The different kinds of banks provide nearly every district with a public mortgage credit bank which brings its services within the convenient reach of nearly all farmers within their field of operations by their system of local representatives.

Except in the case of savings-banks, capital is mainly obtained by the issue and sale of farm mortgage bonds. The responsibility for the payment of these bonds lies with the institution which issues them. The Landschaften, or coöperative farm mortgage associations, alone appear to leave to borrowers the realization of the money on these bonds, but in recent years this has been facilitated through their own loan banks. The other kinds of institutions pay cash to the borrower at a rate slightly below the current market price, selling the bonds on their own account either at the time or at a future date. The borrower usually has to pay from ¼ to ½ of 1 per cent commission for this service.

Loans by the issue of bonds are advantageous in not being subject to recall or to an increase in the rate of interest on the part of the lender, while they allow the borrower to repay his debt by the purchase and presentation of bonds of the same class issued by the institution

when said bonds are low in price. Their principal disadvantage consists in their possible depreciation in value at the time of granting the loan, while the borrower has to pay interest on the full amount of the loan. As a rule, however, the depreciation in the value of farm mortgage bonds is merely nominal.

The organization of mortgage credit in many countries of Europe has been greatly facilitated by the complete system of registration of title. In the German Empire, for example, a uniform system was established in 1900 which provides for obligatory registration of title, priority of each claim in the order of its registration, and freedom of inspection of the registers. These registers are drawn up for small areas and are maintained by them; they describe each estate and recite all personal and other charges against it; and, in general, no claims against an estate which are not duly registered are valid in a court of law. It may be added that the costs of registration or cancellation of mortgages are very moderate. In Prussia, the registration of a mortgage for $2,500 costs $10, for cancellation $5, and this sum in each case includes the notarial and court fees.

Compulsory registration of title as it exists in Germany, Austria-Hungary, and Russia, or compulsory registration of deeds as it exists in France, Belgium, Holland, and other countries, appears to be a necessary condition for the foundation of a system under which landowners may obtain mortgage credit on suitable terms by the issue of farm-land bonds which would take the place of mortgages as first-class securities in the open money market in the different countries of the civilized world.

PRINCIPLES OF RURAL CREDITS

PART II

A CONSTRUCTIVE CREDIT SYSTEM FOR AMERICAN FARMERS

CHAPTER IX

THE RURAL CREDIT PROBLEM

In modern business, credit is displacing to a great extent cash transactions. But credit implies a debt, the payment of which is put off to a more convenient season. The business man receives goods on credit, sells them at a profit, pays his debt sometimes with interest, and orders a new supply of goods. A large part of the world's business is done in this way, money being little used directly in many transactions.

A man's business is thus enlarged to the extent of his credit. Suppose a merchant has five thousand dollars in cash with which he would enter into business in a small way. He buys his stock of goods but finds the supply inadequate. Suppose the firm which sold him the goods now gives him credit for an equal amount of goods to be paid for in six months, a year, or two years as policy may dictate. The merchant thus doubles his supply of goods by means of credit, and his prospects of profit are doubled, by doubling the prospective amount of his business, without the expenditure of any more money on his part.

If his judgment has been sound and his business successful, when the time comes around he pays his bill and renews his credit even to a greater extent, perhaps, than before. Both he and the business firm have profited by the extension of credit; the latter has sold more goods

to the merchant, thereby making an increased profit, and the former has enlarged his business and doubled his financial income. Sound credit, therefore, promotes business prosperity.

THE NATURE OF AGRICULTURE

Credit granted for the promotion of any line of agriculture is known as rural credit. Its aims are precisely the same as business credit. By enlarging his credit, the farmer may expect to increase his business and promote his financial welfare. Under ordinary circumstances, these results should be realized. By credit the farmer can increase his work and his efficiency; he can procure better stock and better implements. For the development of agriculture, therefore, the value of credit must be recognized as it is in other kinds of business.

But agriculture is a unique industry. It produces the raw materials for food, clothing, and articles of domestic use. These are three of the most essential needs of life.

Food is man's first need, and the farm feeds the world. The daily bread of the race comes from the soil and the farmer is the world's agent of production.

But next to food is clothing, and the raw materials of the textile industries come from the soil also. And as part of the products of the textile industries may be added many of the articles which furnish the home—the center of social life—where they serve as our luxuries, our comforts, and our needs. The raw materials of these manufactured household goods are also produced from the fields by the labor of the farmer, and they add much to our well-being as measured by our high standards of life.

Agriculture is the universal industry. The existence, progress and much of the industry of the race absolutely depend upon it. What promotes agriculture benefits mankind; the progress of agriculture and the progress of civilization go hand in hand. Our industries are closely related and dependent one upon another, and the raw materials for many of them are provided by agriculture. To promote rural credit for the development of agricultural enterprises and to increase the efficiency of the farmer is to lay the foundation of a greater national prosperity. This the progressive nations of the world are slowly beginning to recognize. Let us pass on, therefore, to consider some other characteristic features of agriculture which help to complicate the rural credit problem as it now appears in the United States.

The business of farming is the most precarious of all industries. The farmer may plow and harrow his fields and sow his seed, but he will have no assurance that he will reap a harvest. Being subject to late frost in spring or early frost in fall, his fruit and other tender crops may be ruined in the bud or before fully mature; being subject to excessive rain or drought during the growing season, he may reap only half a normal yield; being subject to wind and hail storms, his crops may be damaged enormously or wholly ruined. Surely the farmer that ploweth plows only in hope of securing a harvest, and his hope may not be realized. The business of general farming is risky at the best.

Likewise with the stockman who raises meat and draft animals. Pestilence and famine may diminish his flocks and herds to his financial embarrassment. A sudden

blizzard sweeping over the western plains or foothills may destroy hundreds or even thousands of his grazing cattle; exposure to stormy weather or to the harassing pest of stray dogs may ruin his flock of sheep at maternity time; an unexpected attack of hog cholera may wipe out his whole drove of promising pigs—all the forces of nature are pitted against the stockman which render his industry at all times more or less insecure.

The control of these natural forces is not within the farmer's hands. Before them he frequently stands helpless and, when they have passed, he often finds himself penniless. A promising crop or a flourishing flock may sometimes become a total loss. The farmer's individual loss, multiplied by thousands all over the country, becomes more or less of a national calamity. According to United States Department of Agriculture Farmers' Bulletin 590, the losses of meat animals, horses and mules in 1913 from disease and exposure are enormous. It says:

"On the basis of farm values January 1, the losses from disease of cattle, hogs, and sheep aggregated in value about $122,000,000, and losses from exposure of cattle and sheep about $28,000,000—a total loss in meat animals from disease and exposure in one year of about $150,000,000—an amount which would have been more than sufficient to furnish a normal year's supply of meat to the entire population of the New England States."

In addition to meat animals, "if the estimated loss of 20.6 per thousand be applied to the numbers and value of horses and mules on farms January 1, it would indicate a total loss of approximately 523,000 head, at $113 per head, or a total of $59,100,000."

The total value of the losses of live stock in 1913 amounted to about $210,000,000. The losses from all other causes affecting general agriculture would make the total losses something enormous. The farming industry as a whole is thus shown to be an exceedingly precarious business, and its failure, as well as its success, must have its effect to a greater or less extent upon our national welfare.

Another feature which makes farming precarious is that many products are extremely perishable. These products must be sold quickly or they will deteriorate in value and in a short time become wholly worthless. Among the products more or less easily perishable may be mentioned milk, cream, butter, eggs, dressed poultry, small fruits, and many truck crops. And these largely enter into the daily needs of mankind. Not only is the farmer handicapped by the forces of nature in producing a crop, but the nature of his business frequently compels him to dispose of his goods at a low price in order to get reasonable returns for his labor and capital. The necessary risks taken in handling these products through the ordinary channels of commission men and retail dealers, who know well enough the difficulties of the situation, force them to pay the lowest possible price even for goods that are in first-class condition. The burden of handling perishable goods is not assumed by the middlemen, but it is thrust back on the farmer who, when marketing alone as an individual producer, has to receive compensation on the basis of prospective losses as a result of the perishable nature of his goods.

Another characteristic of farming is that it is not a con-

centrated industry. Farming requires extensive fields to produce raw materials. The cotton grown in a whole county could easily be manufactured in a single building. The workmen engaged in cotton-cloth manufacture may meet each other daily and are always on hand for united effort. Not so with farmers. The nearest neighbor may be a mile away; the farmer engaged in growing the same kinds of crops may be five miles or more away. The opportunity for united effort among farmers varies with the size of the farms and the kind of products raised. A community of small truck-growers or adjacent growers of citrus fruits is a more intensive field for united effort than a community of general farmers no two of whom may grow the same crops and who operate farms probably not less than 160 acres in extent. But in no sense can farming be considered as a concentrated industry, not even in Europe where the average farm is so much smaller than it is in this country and where the rural population is much more densely settled.

GROWTH IN FARM TENANCY

As a last feature having a bearing on the rural credit problem is the fact that so many farmers do not own the land they cultivate. The interest of tenant farmers in the land they work is of a transitory nature. A tenant farmer may be on one farm this year and on an entirely different farm a year hence. Tenant farmers, under the systems of leasing prevailing in many parts of the country, pave the way for soil exploitation as they in turn are often exploited by the merchants who furnish the means of running the farm until the crops are harvested.

Farm tenancy in itself is by no means a small problem. The increase of tenant farmers during the last census decade is greater than the increase of farm owners. The Census of 1910 shows:

	1900	*1910*	*Increase*
Farm owners..........	3,653,323	3,948,722	295,399
Farm tenants.........	2,024,964	2,354,676	329,712

A study of the Census statistics shows that between 1900 and 1910 the farms operated by owners increased 8.1 per cent in number, while those operated by tenants increased 16.3 per cent. Since 1880, and probably further back, farms operated by tenants increased in each decade faster than those operated by owners. Tenant farms constituted 25.6 per cent of all farms in 1880; 28.4 per cent in 1890; 35.3 per cent in 1900; and 37 per cent in 1910.

While the increase in farm tenancy is not startling, it is at least sufficient to attract attention to itself as an economic problem of no small magnitude. But farm tenancy becomes serious when viewed from the standpoint of credit. Are these 2,354,676 farm tenants to be utterly ignored in any rural credit scheme that may be devised and applied in the United States? Are they to be properly financed in the future or to be badly financed as heretofore and thus continue to be the victims of unscrupulous exploitation? It will be disastrous on our national welfare to discourage this great host of wealth producers in an industry already taxed to the utmost to supply our economic needs; but it may add much to the future prosperity of this nation if encouragement for tenant farmers is provided by a just and rational credit system.

IMPORTANCE OF CREDIT FACILITIES

The preceding outline on the nature of agriculture as an industry is the first aspect of the rural credit problem in the United States. But there are other phases of the question which tend to complicate the problem. The great expanse of our country with its various climatic conditions which compel the culture of different crops and the practice of different agricultural methods; the right of the various states to promulgate their own laws as to interest rates and commissions on loans; the lack of organization among the farmers in many states and throughout the nation,—these conditions make it hard to formulate a system of rural credit that could be adapted to all parts of the country and to all classes of farmers alike.

Of the 91,972,266 persons in the United States on April 15, 1910, no less than 49,348,883 belong to the rural population, or nearly 54 per cent. The land area of the country amounts to 1,903,289,600 acres, of which 878,798,325 acres are included in farm lands. The number of all farms was 6,361,502, or an average size of 138 acres to the farm. The total value of all farm property was $40,991,449,090, or an average value of $6,444 to a farm.

From a consideration of these figures alone, the importance of credit facilities for such a vast population engaged in an industry which presents so great a property valuation can hardly be questioned. But the rural population, on account of their lack of organization, is peculiarly subject to credit exploitation. While states regulate the legal rates of interest that can be charged for loans,

still the legal rates are frequently doubled when loans are made to farmers by various means, particularly by the so-called "commissions" and "renewal charges." Mortgage loans are usually made for short periods, say from three to five years, and when commissions and renewal charges are taken into consideration, the legal rate of interest is greatly enlarged. To place this financial burden on the shoulders of those engaged in an industry already rendered precarious by the forces of nature is to discourage that class of wealth producers whose importance to our national welfare is generally recognized. While every legitimate agency is being set in motion to encourage farm occupancy and to improve rural conditions, little or no consideration has been given by our state legislatures to encourage farmers and promote farming by due consideration of the credit problem.

Mortgage loan rates

Within two miles of the place where these lines are being penned are two families engaged in farming. The first farmer took part of an old Maryland plantation whose soil was worn out and, by hard work and intelligent farming, brought up the land to a high state of production. But this farmer is unable to borrow on his improved land except on a three-year mortgage at 6 per cent interest and by the payment of 5 per cent commission in addition. This would make his interest nearly 8 per cent per annum when all other items of expense, which must be incurred every three years, are taken into consideration.

A more glaring instance of exploitation of farm owners is that of three sisters engaged in poultry raising and bee-

keeping. Being desirous of securing a loan of $600 to enlarge the poultry side of their business, they could get the money only on the basis of 10 per cent commission in addition to the regular 6 per cent interest. The amount was advanced on two notes secured by mortgage for $300 each, one of which was for one year and the other for two years. This method makes their interest practically 18 per cent per annum, or about three times the legal rate of interest.

These instances of the exploitation of farm owners under our present mortgage system are characteristic of what is going on all over the United States. Investigations were recently made by the Rural Organization Service of the United States Department of Agriculture to ascertain among other things the rate of interest on both long-time and short-time loans. The former are generally mortgage loans which, of course, apply to farm owners only; while the latter include both collateral and personal loans which may be made to either farm owners or tenant farmers.

The returns from thirty states show that the nominal average interest rate on first mortgage farm loans is $7\,^{1}/_{15}$ per cent. To this must be added the charges for abstracts, commissions, and other incidental expenses. Interest rates vary above and below this average in different States. Thus the average farm mortgage interest rate in Alabama is 8.8 per cent; in Arkansas it is also 8.8; in Arizona, 10; Illinois, 5.5; Indiana, 5.6; Iowa, 5.6; Massachusetts, 5.5; Minnesota, 6.2; Montana, 9.3; Ohio, 5.7; Oklahoma, 7.2; Pennsylvania, 5.3; Texas, 8.5; Utah, 8.7; Wisconsin, 5.6; Wyoming, 9.2.

Not only do the average rates of interest on farm mortgages vary between the states, but they vary within the state itself, some states showing greater variations than others. Minnesota has the most marked variation in interest rates of all the states, which runs from 5 per cent in the southern part up to 9 or 10 per cent in the north central part. The causes of this great variation in interest rates on farm mortgage loans may be attributed to soil conditions, climatic conditions, methods of farming, distance from markets, the different financial agencies through which loans are secured, and the amount of loan to the security. One or more of these factors may have a bearing on determining the rate of interest charged on farm mortgage loans within a given state. The underlying principle which regulates the rate seems to be that of the greater the natural and economic risk the greater the rate of interest must be charged. It is the embodiment of the lender's aim to protect himself against prospective loss.

Personal loan rates

For short-time loans on collateral or personal notes, the general average rate of interest for all the states is 8.4 per cent. In the different states, the run of the average rates of interest is very similar to that of mortgage loans. The lowest is in New York and Pennsylvania where the average rate of interest is 5.9 per cent for short-time loans. The highest rates are in the Rocky Mountain section of states and in the South, ranging from 10.6 per cent in Utah to 12.8 per cent in Arizona. The highest rate is in Oklahoma with 13.4 per cent.

That the farmer, as to securing credit, does not stand on an equality with the average business man is shown not only from the high rates of interest charged, but also from the average amount of the loans secured. Taking the United States as a whole, the average short-time loan to farm tenants is $250, to farm owners $644, and to business men $1,465.

But the man in business is not subject to such great exploitation on short-time loans as is the average farmer. Every effort is made by money lenders to get around the law in those states which fix a maximum rate of interest. In the case of borrowing money, the custom is to make out a note for a certain sum and then turn over to the borrower a less sum in cash—from $70 to $90 on a note for $100—the legal rate of interest being charged for the whole amount of the note. In the South instances have been officially reported that some banks charge negro farmers 100 per cent interest for loans, the stipulation being made that both principal and interest shall be paid in six months. This would make the rate of interest 200 per cent per annum. This is called a "premium" for the use of the money.

When it comes to tenants or poor farm owners, who are more or less dependent upon merchants for credit in the form of cash, household goods, implements, seed, fertilizers, and the like, the case is much worse. The method practiced is about as follows:

A young man wishes to farm on his own account. He has secured the land, but has no capital with which to stock his place and run his home. There are merchants in the South who make a business of financing such farmers.

A merchant will have a talk with the young man and, if he considers him honest and a good risk, he will make out a blanket or a crop-lien note, on which stock, farm implements, household goods, prospective crops, and the like, are all named and described. After the agreement is made, the merchant furnishes the farmer such implements, stock, seed, and so on, as he needs. In the case of a tenant, the merchant usually assumes his rent also. For such a young farmer the note may range from $300 to $500, according to the size of the place to be worked. In the case of a farmer who already has a mule and some implements, all that will be needed may be fertilizers, dry goods, groceries, and perhaps some seed. The notes in this case are usually from $150 to $300, according to the size of the place and family.

All the collateral named in the note may be sold at forced sale if the crops fail or if the merchant wishes to foreclose on the borrower for any reason. This is often done if, in the opinion of the merchant, the borrower has not worked as hard to make a crop as he should or if the merchant does not consider the borrower a satisfactory risk after trying him for a year. All of which works hardship on the poor farmer.

In charging the borrower for goods bought, various methods of exploitation are practiced. The merchant first makes out a blanket or crop-lien note, perhaps about February 1, to run until September 1 or October 1 according to crop being raised, with a "premium" charge of 20 per cent frequently, if the farmer is illiterate. Such a note made for $300 is good for the purchase of $240 worth of goods only. Then he charges interest varying from 8 to

20 per cent on a $300 note as though it ran for a year, though it may only run for six or eight months. Then he sells goods at 25 to 40 per cent, which is the usual gross profits to a cash trade, with a "premium" added at almost any per cent his conscience will permit. All of this amounts practically to downright robbery.

GENERAL INTEREST IN RURAL CREDIT

The preceding outline sets forth some of the most important phases of the rural credit problem in the United States. To meet all these conditions with a system for financing the farmer that would be adaptable to all parts of the country and to all classes of farmers has been recognized as a difficult proposition. For the purpose of considering the subject, a conference of interested delegates was called at Nashville, Tennessee, in April, 1912, and, after due discussion, it was decided to inaugurate a movement for a coöperative credit system by farmers for farmers.

As a preliminary step in this direction, it was decided to gather together a national representative commission to visit Europe for the purpose of studying the different systems of rural credit in operation there. If found feasible, it was also decided to adopt them as a basis of coöperative rural credit in this country. Under this resolution, the Southern Commercial Congress brought together about seventy-five delegates from different states and from several provinces of Canada, and this body is known as the American Commission.

President Wilson, under authority of Congress, also appointed the United States Commission, consisting of

seven members, to coöperate with the American Commission in the investigation and study in European countries of "coöperative land-mortgage banks, coöperative rural credit unions, and similar organizations and institutions devoting their attention to the promotion of agriculture and the betterment of rural conditions."

These two commissions sailed from New York on April 26 and returned on July 25, 1913. A vast amount of information secured on this tour of investigation was published by the government as Senate Document No. 214, 63d Congress, 1st Session. This volume contains more than 900 pages. It presents evidence from the most authentic official sources in Europe concerning farm conditions, the extent of farmers' organizations and their relation to rural credit systems, the methods of granting and protecting loans to farmers, government aid to rural credit, and other matters having a bearing on the problem of financing the farmer.

The facts on European agricultural coöperation and rural credits have already been set forth in Part I of this volume. The next thing to do is to see what lessons these facts have toward formulating a credit system for American farmers. In view of the great difference in rural conditions that prevail in Europe as compared with those in this country and Canada, the problem of financing the American farmer is by no means an easy one to solve. This can be stated as a recognized fact at the outset. At the same time, every effort should be made to deal with the subject intelligently and conscientiously. The importance of agriculture as a great and growing national industry is a sufficient justification for undertaking the task.

CHAPTER X

CONDITIONS OF RURAL CREDIT

EUROPE has its lessons for American farmers. The chief value of the experience of European farmers in building up a system of rural credits lies in the possibility of suggesting a constructive credit system for farmers in the United States and Canada. The size of farms, methods of farming, standards of farm life, general rural conditions, and social customs are much alike in these two great commonwealths of North America. If a rural credit system can be worked out for farmers in the United States, undoubtedly it could, with certain modifications, be adapted to farm conditions in the different provinces of Canada. The legislatures in both countries are seriously considering the subject. Therefore, under any circumstances, the experience of European farmers may at least be suggestive to those who are striving to formulate a sound credit system for farmers.

It is recognized in both countries that agriculture is one of the most important of industries. The number of persons engaged in it far exceed the number employed in any other single industry, and the wealth annually produced from the soil surpasses in value the wealth produced from any other single source. There is no reason why farmers should not have a sound credit system; and for the development of their own industry, as well as for our national welfare, they ought to have it.

While the problem of rural credits is of great importance, it can hardly be solved apart from certain definite principles of social economy and finance. From the viewpoint of social economy, it is all summed up in the statement that the farmers of Europe both helped themselves and were helped to formulate their credit systems; from the viewpoint of finance, the farmers sought to conduct their industry on business principles and to procure loans on as reasonable terms as possible. These are the simple first principles on which the European rural credit systems were established and were developed so successfully.

THE NEED OF ORGANIZATION

If the farmers in the United States and Canada are to depend alone on their mutual help to provide themselves with money for personal or mortgage credit, the need of organization seems to be the first essential factor. One of the recognized reasons why farmers in America have not been able to secure loans on such favorable terms as men engaged in the industries or manufactures is because of their lack of organization. The natural isolation of farmers as a result of their calling must be overcome by the social spirit which calls for united action along lines which will protect and promote their own interests.

In this respect, European farmers passed through precisely similar conditions to those which now oppress American farmers. When the farmer stood alone, as he did in Europe a hundred years ago, he was the prey of unscrupulous usurers and money sharks who, by their pernicious practices, brought both the individual farmer and agriculture itself to the verge of ruin.

The need of protecting the farmer against unjust debtor conditions is as much the concern of the state as it is of the farmers themselves. Where legislators fail or refuse to do their duty in this regard, the value of organization among farmers for forcing the issue of their protection against unreasonable credit conditions and demands becomes of the first importance. The farmers' coöperative societies, already organized in this country primarily for marketing their products more advantageously, should be regarded as the leaders of the movement toward the improvement of farm credit conditions.

Very little progress will be made in organizing mutual credit societies among farmers unless confidence in each other's honesty and industry is first encouraged. Farm-life conditions here place farmers at a great disadvantage. In European countries, the farmers of a given district speak the same language, have common customs, cultivate small-size farms, live together in villages, meet together frequently, have similar farm practices, and know each other's traits of character well. How different all this is from American farm-life conditions is too well known to require discussion. Because of the large size of farms in the United States and Canada, the farmers of a given district are so few in number that there is little opportunity for forming local credit societies with any great prospect of success. Credit societies in rural districts need members as a basis for organization. Local credit societies could not very well enlarge without passing beyond the limits set by financial prudence which requires that the character of the members should be known to each other.

But even with this drawback, there would be less need to restrict the size of the district for local credit society purposes under American farm-life conditions than there is in Europe. The greater use of the telephone, automobiles, and horse vehicles in this country is able to bring farmers of a large district together in a comparatively short space of time. By these means a larger number of farmers could meet for the purpose of organizing a local rural credit society.

But this would raise two difficulties, namely, the farmers of a large district would not know each other intimately and, in case of the organization of a rural credit society for making personal or short-time loans, they would not be near enough to watch over each other to see whether or not loans were expended for the purposes for which they were granted. Moreover, as we shall see later, there is not so much need of the farmers organizing rural credit banks as there is of protecting them against unscrupulous money lenders. The farmers of many parts of our country are already served by a large number of small country banks distributed in many rural districts. In fact, in many of these banks the farmers themselves are frequently stockholders and directors, and they receive from these banks a reasonable service at moderate rates of interest.

MEMBERSHIP AND CAPITAL OF A LOCAL BANK

It seems evident, therefore, that on account of the large size of farms and the state of isolation of farm life in America, the question of membership for the successful operation of a local rural credit bank would have to be

seriously considered. In Europe some of the local societies have a membership of three or four thousand, while the smallest usually have two or three hundred members. When dependence is placed alone on mutual help among farmers for the accumulation of the money with which to make loans, the question of the number of members is vital to the success of a society. If a society were organized among farmers with no great annual money income from the sale of their products, its small membership would afford little prospects of ever accumulating sufficient capital with which to make loans.

This, probably, is one of the most difficult aspects of the rural credit problem among farmers in the United States and Canada from a strictly coöperative point of view. The limited number of members personally known to each other and the limited amount of capital which could be subscribed cannot readily be overcome under existing farm-life conditions. Nor would it be desirable, for the mere sake of organizing local rural credit societies, to have farm conditions in America similar to what they are in Europe. Our system of farming and our rural life conditions are typical of the western hemisphere. Both are open to improvement, but it is questionable whether reducing the size of farms and adopting a communal farm life would be indicative of improvement. Without a more dense population, however, in rural districts, the organization of a local coöperative credit bank of the Raiffeisen type has these difficulties to overcome.

There would be absolutely no use in organizing a credit society of this type for the mere purpose of organization,

without regard to the number of its members and the prospective amount of its capital. Both elements are essential to success. In some localities where farms are small and where the farmers know each other for miles around, there local rural credit societies could be organized with the prospect of success providing the farmers are well enough off financially to furnish the necessary money for making personal loans. The coöperative character of such a bank, of course, involves the performance of duties on the part of some of the members without compensation. In fact, for the organization and management of such a bank on a mutual basis, the willingness to make personal sacrifices of time and energy is absolutely essential. Unless the leading farmers of a community are prepared to do this, the organization of a rural credit bank had better not be undertaken. The aim is not personal gain, but the welfare of the community. This should animate the activities of rural leaders in striving to promote credit among farmers.

But how many districts are there in the United States or in Canada where enough landowning farmers could be brought together and would be willing to form a coöperative credit bank on Raiffeisen principles? The sole purpose of such a bank is to furnish personal or short-time credit. Mortgage credit is very seldom granted by this kind of bank. Then there is the question of the liability of members for the debts of the bank. Before any attempt is made to organize a local credit bank, these matters should be carefully considered and they should settle the question of the advisability of organizing such a bank in any given locality.

COÖPERATIVE FARM MORTGAGE SOCIETIES

If the difficulties are great with reference to the successful organization and management of local rural credit banks for personal loans, the difficulties are no less when the organization of a coöperative farm mortgage society is considered.

The Landschaften were organized by Prussian noblemen who held very large estates. Many of these estates were divided into numerous farms which were leased to tenant farmers. When the income from these farms was not always sufficient to meet the expenditures of their owners on account of their extravagant mode of living, they were frequently compelled to borrow money at high rates of interest. As security for such loans, mortgages on the estates would be given. When for this reason and others the estates had become greatly incumbered with indebtedness and difficulty was encountered in securing further loans except at most usurious rates of interest, the Prussian noblemen were driven to work out a system of land mortgages on a mutual basis. These coöperative farm mortgage associations, called the Landschaften, conceived of the idea of issuing bonds, secured by first mortgages, which could be sold on public stock exchanges. This, in brief, is the origin of the farm-mortgage bond. It makes land, the farmer's best asset, far more liquid than a mortgage does.

But how different this is from the state of affairs among farmers in America. While there are many large estates scattered throughout this country and Canada, the average farm is only about 138 acres in size. In all probability,

the general body of farmers in any particular county or district would find it exceedingly difficult to organize into a farm mortgage association on a mutual basis. To do this they would have to pledge their lands in common, issue bonds to the amount of the mortgages, and sell these bonds to the investing public. What confidence would investors have in bonds issued by local mortgage societies, even if farmers were willing to do any such thing? As worked out under German conditions and which has been perfected during more than a century, the system is an excellent one and has served a very useful purpose. It has made the security of farm lands more easily sold and has placed the mortgage on a long-time basis, on easy terms of repayment, and at reasonable rates of interest.

If the European system cannot be adapted directly to farm conditions in the United States and Canada, nevertheless farmers should aim to secure these results. The methods of securing them may be modified to meet American conditions. It is exceedingly doubtful whether a coöperative farm mortgage credit association could be organized successfully here; but the principles could undoubtedly be adopted under state supervision to the great benefit of farmers who have mortgages on their farms. This phase of the subject will be considered more fully when the subject of state aid to agriculture is discussed.

THE DANGER OF DEBT

Of all business men, farmers should be the first to hesitate about involving themselves in debt. The uncertainty attached to agriculture makes it absolutely impossible for any farmer to foretell what his income will

be at the time of harvest or when he comes to sell his cattle. If staple crops are being cultivated, a glut in the market may lower prices, or a drought or flood may diminish the yield, so that the farmer's calculations as to his financial resources may altogether fail him when the time comes for the payment of his indebtedness. If live stock are being raised or fattened for market, the high cost of feed and labor, or the ravages of disease, may play havoc with a stockman's prospects for making profits when he comes to sell.

In the meantime, if money has been borrowed to carry on these productive enterprises in the anticipation of making a profit, the time of meeting the obligation is drawing nearer with absolute certainty. An honorable debt should be honorably met if it is possible for the farmer to do so. But this cannot always be done. When all the farmer's difficulties are taken into consideration, it is no disgrace that he cannot always pay his promissory note when it becomes due. He may be able to pay the interest though compelled to ask for an extension of time on his note. This the European coöperative rural credit banks are always willing to do, for one of its functions is to aid the farmer under just such circumstances. But a limit is placed on the number of times a note is renewed, and sooner or later the debt has to be paid. But in America, where there are no local credit banks to aid the farmer, a debt always rests as a burden on the farmer and causes him no end of uneasiness and worry.

A distinction must be drawn between money borrowed to be used for the purchase of articles for consumption and money borrowed for a productive purpose. Articles

for consumption are things bought to satisfy our desires; while articles for productive purposes may be seed, fertilizers, tools, and so on.

No farmer ought to borrow for the purchase of goods for consumption, like food and clothing. As a matter of fact, rural credit has nothing to do with this side of a farmer's life. The purpose of organizing rural credit banks is to promote the development of productive enterprises. It may be asked, What is the difference between a farmer buying on credit and borrowing money with which to buy the same things and paying interest on the loan? As a general rule, there would be little or no difference. The merchant who sells on time usually figures in enough extra profit to pay, or more than pay, the amount of interest that would accrue on the loan during the time the store credit is calculated to run. From this point of view, the creditor of the farmer is both a merchant and a banker. Financially considered the practice is a bad one and should be discouraged.

Rural credit is concerned with the problem of making it easy for the farmer to borrow money for productive purposes. Even here, however, a farmer's calculations do not always materialize. Productive enterprises are undertaken in expectation that the increased profits resulting from the work will return both principal and interest, with compensation for one's labor. But the farmer who sows cannot be sure that he will reap; and the stockman who buys cattle for fattening is never sure how soon disease or other accident may ruin his prospects of profits. The precariousness of any line of farming renders it one of the most risky industries in the world, for no

farmer can be certain that what he undertakes as a productive enterprise will turn out to be so. The risks of farming are incalculable.

If the danger is great of being unable to pay money borrowed for productive purposes, what shall be said of a debt incurred by a farmer for the purchase of a piano or other luxury? To have good credit is not always to the best interest of the farmer. He may involve himself and his family in debt beyond his ability ever to redeem his bond so long as he lives. A member of a Raiffeisen rural credit bank in Europe could not do that. A request for a loan has to be accompanied with a written statement as to how it is to be expended. If the committee of his fellow farmer members deem the purpose unlikely to be profitable, the loan is refused. This protects both the farmer and the organization of which he is a member. The great risks of farming are always taken into consideration as well as the inexorable return of the day when the debt has to be repaid. It is far better that a farmer keep out of debt than to have the most satisfactory credit system possible.

THE SIGNIFICANCE OF INTEREST RATES

Of course, if American farmers are so situated by farming conditions that they cannot easily form local rural credit banks or farm mortgage credit associations on a mutual basis, they are in no position to influence the rates of interest on loans. If they are compelled to borrow money and are able to do so, they are simply at the mercy of the money lender whether he is an individual or a bank.

Now, this is the condition in many parts of the United

States. Interest rates vary according to local, county, or state conditions. In some parts, loans to farmers may be as low as 5 per cent, in others as high as 12 per cent or even higher. It has been estimated that the average rate of interest is 8½ per cent, or about double what it is to farmers in Europe.

This increase in interest rates is a great financial burden on American farmers. The farm mortgage indebtedness in the State of New York has been estimated at about $100,000,000. If the farmers could save from 2 to 3 per cent on their indebtedness, it would mean an annual saving of two or three million dollars. The total indebtedness of farmers in the United States has been estimated at more than $6,000,000,000, about equally divided between mortgage and short-time current loans. A similar saving in interest rates on this enormous indebtedness would mean an annual saving to our farmers of a sum ranging anywhere from $120,000,000 to $180,000,000. This money would serve a far better purpose in the pockets of farmers than in the coffers of money lenders.

The high rate of interest on farm loans may be explained on the theory that when there is less money for loans in a community than is required by borrowers, interest rates will be high and the lenders of money dictate terms. This, however, is hardly likely to be the case with farm loans for the reason that, when money has to be borrowed for farm purposes, usually a distant town or city bank, merchant, or private money lender grants the loan.

The more plausible explanation is that, in addition to the effects on the rates of interest which arise because farmers are not organized and because farming necessarily carries

grave risks, there is the direct relation between interest rates and land values. Recent investigations by the Wisconsin Agricultural College have emphasized this fact. Studies were made on interest rates in two counties, Dane and Rusk. The former represents a long-settled county in which land values have reached a high figure; whereas the latter is a new and pioneer county, mainly agricultural, and land values are low. Interest rates on farm loans in the older southern county were found to range from 5 to 6 per cent; in the newer northern county they ranged from 6 to 10 per cent. In Dane County the highest kind of bank loans are farm mortgages on improved land, for the farmer can often secure loans at cheaper rates than the city borrower can secure them on real estate. In this county the credit wants of the farmer are usually easily met at reasonable rates because farm loans are eagerly sought by those who have money to lend.

But in the newly-developed Rusk County, as well as in the undeveloped part of North Wisconsin, there is not sufficient accumulated money to meet the needs of these rural communities. There farm-land values are much lower than they are in the southern counties, where a high per capita of wealth obtains, notwithstanding the fact that large sums of money are made by farmers from their first crops and that wonderful stands of pine and hardwood forests have in many cases contributed much to the agricultural development of these sections. Large amounts of money are still needed for the further development of Rusk County; consequently, interest rates may be as high as 10 per cent because land values are low. Under these conditions, a farm settler frequently exhausts his

credit without being able to finance at cheap rates his real monetary needs for both current and mortgage credits.

As a means of aiding to meet this demand for loans, the State of Wisconsin passed a law authorizing the formation of coöperative land-mortgage banks, and three such banks were organized within a year. To what extent these coöperative land-mortgage banks have succeeded in meeting the credit wants of the farmers of Rusk County has not yet been reported.

FARM LOAN CONDITIONS

But, after all, the explanation of high or low interest rates is not as important as the facts relating to the conditions of farm loans in the United States.

Personal loans are usually granted for periods of a few months, at presumably legal rates of interest, but to which commissions or premium charges are frequently added which equal or even exceed the lawful interest rate. Mortgage loans are generally granted for three or five years, with commission charges on loans, expenses for drawing and recording papers, and other items of cost which increase greatly the legal interest rates. If repayment of the mortgage debt cannot be made at the stipulated time, foreclosure proceedings face the farmer with the prospect of losing his farm. This possibility is ever present on the regular mortgage plan of a short time and a lump-sum payment. If, however, a renewal of the mortgage is granted, it is usually by the payment of the commission and other costs. Thus an ordinary farm mortgage loan is a source of worry and large outlay for most farmers, and few of them are able to make much progress in paying off

their indebtedness when rates of interest and other charges are high.

These conditions of rural borrowing and lending are not within the control of farmers. As already stated, for thirty states the average rate of interest on first-mortgage farm loans is $7\ ^1/_{15}$ per cent and for personal loans $8\ ^2/_5$ per cent, to which all incidental expenses must be added. Without the aid of rural credit banks for personal loans or coöperative farm mortgage associations for long-time credit, the farmer is practically powerless to help himself when it comes to borrowing money. He is in no position to dictate terms. In many parts of the country, banks make no efforts to secure the farmer's patronage. In the South particularly, loan conditions to farmers ought to be revolutionized. Some banks which make small loans of $5 to $25 ask the borrower to sign waiver notes which name as collateral security mules, wagons, or household goods. For this service the banks charge from 50 cents to $1.10 for ten to thirty days, which is not called interest but a "premium." This is the practice with those young farmers who do not do business regularly with the bank.

On the other hand, customers who deposit regularly and do a considerable business, if they wish to borrow $100 for thirty days pay 12 per cent interest a year, which is as long as a loan will be extended. No borrower can get a loan for more than $1,000 and that must be secured by first mortgage on good farm property. In addition, the borrower pays all expenses which include a recording fee ranging from 85 cents to $10, a mortgage tax at 15 cents a $100, an abstract of title costing from $5 to $50, appraising property at a cost of $5 to $50, notary fees, and other

items. These costs add greatly to the interest which may range from 8 to 15 per cent. If the legal rate of interest is 8 per cent and the note is made for a higher rate, the face of the note shows no interest at all. The interest rate is figured in as principal, and the note is made to read as though a certain sum was due at stated times without interest. If a farmer borrows $100, it is the custom of the bank to discount at the agreed rate of interest and the borrower may get $70, $80 or $90, whereas the note reads $100 due at maturity. All this, of course, weighs heavily upon a struggling farmer.

THE "ASHLAND DAIRY PLAN"

In contrast with what has been set forth as certain phases of banking conditions in the South, a noteworthy instance of banks and business men coming to the aid of struggling farmers is what is known as the "Ashland Dairy Plan" of financing the farmer. This is a practical working scheme for rural credit which marks the broad-minded policy of local country banks in a number of districts of northern Wisconsin.

This plan of rural credits for personal loans consists of several banks uniting to lend money to farmers for the purchase of dairy animals. At the same time the business men's associations of the several districts guarantee the farmers' notes, while the dairy man pledges himself to pay each month on the loan one-half the amount of his milk check. The farmer also contracts to raise all his heifer calves.

The Animal Husbandry Department of the University of Wisconsin assisted in selecting five carloads of dairy

cattle for distribution in the Ashland district. These animals were distributed to the farmers by lot, the total expense of purchase and delivery being pro-rated accordingly and added to the cost price of each animal. Several carloads were also purchased for the districts of Iron River and Mellen, and the plan is being contemplated in numerous other districts in Wisconsin.

This plan of rural credit has been so successful that it has already been adopted by thirty counties of Minnesota, and by several communities in California and New York.

The interest rates charged on these loans are the prevailing rates in the different districts. The one objection against this plan is the rather high rate of repayment on the loan. "One-half the amount of the farmer's milk check" each month is an exceedingly high amortization rate. If the rate of repayment was greatly reduced, the farmer would be greatly benefited by this method of credit.

LEGISLATIVE REQUIREMENTS

These are some of the most important rural credit conditions prevailing in the United States which call for legislative action. Of these conditions most farmers are unwilling victims. In many instances they are bound to use them or be deprived of credit facilities. Pressed on one hand by the natural conditions of agriculture which make their industry hazardous and sometimes unprofitable, and pressed on the other hand by high rates of interest, commissions, and other exorbitant costs laid upon them by unscrupulous money lenders, many farmers are

being slowly ruined by the slow grinding of the millstones of burdensome indebtedness. As a means of helping themselves, they could scarcely form credit unions with ten to twenty members with any great hopes of financial success.

In the demand for a better rural credit system for American farmers, they are not asking for charity, but for justice. The farmer is ready and willing to meet all just claims honestly and with as much promptness as his business permits. But the importance of agriculture to the welfare of the state as the source of food and the raw materials of manufactures, as well as the economic value of the farmer as the agent of production in carrying on this necessary industry, would seem to require of our state legislatures not only legal protection for farmers against illegal methods of increasing the burden of interest, but also some form of state aid in their behalf.

Evidently, the conditions of rural credits in America are not satisfactory when considered as a whole. It has become practically useless to appeal to the conscience of the unscrupulous money lender. He is no longer the subject of moral suasion, but of legal prosecution and restraint. Penalties should be provided for adding to the rate of interest by indirect charges and they should be made as severe as they are for direct violation of state laws against usury. The plea of the farmer for a better rural credit system is simply the echo of a national demand which will undoubtedly lead to the increased welfare of the state.

CHAPTER XI

PRELIMINARY MEANS OF PROMOTING RURAL CREDITS

SINCE the conditions of agriculture and farm life are such that American farmers are not in a position to help themselves readily in providing either personal or mortgage credit on a mutual basis, it is evident that means should be provided for them to some extent if a satisfactory system of rural credits is to be established. This can be done either by means of private capital or by state or national aid.

PROTECTION FOR FARMERS

No better aid could be granted to farmers in the United States than by the passage of state laws which would aim to protect them against the forms of credit abuses now practiced and to some of which attention has been called in the preceding pages. All states have attempted to regulate the matter by fixing a maximum legal rate of interest that can be charged for loans. That this sort of regulation has failed in many states is very well known. Evidently, our legal regulations as to money-lending by individuals, banks, or other financial institutions are not sufficiently thorough to prevent credit abuses.

When the law against usury can be so easily circumvented by the method of charging commissions, premiums,

costs, and other incidental expenses, the expectations of the farmer for an improvement in credit conditions will not soon be realized. These extra costs often more than double the legal rate of interest, and against them the farmer seems to have no means of redress.

It is by all odds the first duty of the state to provide the farmer with protection against credit abuses. Individual farmers may plead for relief and the agricultural press may continue to expose credit wrongs from now till doomsday without making the slightest impression on the conscience of some money lenders and without changing the conditions one iota. Such credit abuses not only exist in this country, but they are in practice more extensively than is generally supposed or known. At the same time, it must not be forgotten that, in many sections, farmers are being faithfully, honestly and legally served with credit facilities by country banks.

More stringent laws that would protect the farmer against those money lenders who take advantage of another's needs would in no sense affect the persons or financial institutions that grant loans to farmers at legal rates of interest and that do not unduly multiply the incidental costs. That there is need of such laws is evident from the large number of complaints which are made when farmers try to borrow money at the terms and conditions demanded by money lenders. It is further evident that the credit facilities now afforded farmers in some states must be very poor or else they would not be driven to the necessity of borrowing money under such burdensome conditions.

The next plain duty of our state legislatures, after pass-

ing more stringent laws relating to the taking of interest, is to enforce such laws. A law unenforced is worse than no law at all. It is demoralizing and has a bad economic effect. The passing and enforcing of such laws would have been carried out long ago had the farmers been sufficiently organized, as they are in many European countries, to make their united action more effectual politically. Farmers ought to organize for this one object if no other, in order that they may demand the legal protection against usurious and nefarious credit practices to which as citizens and taxpayers they are justly entitled. Legal rates of interest are always high enough in any community to compensate the creditor for the use of his money. This fact our state legislatures have duly recognized by passing laws to regulate the rate of interest; and, while few persons deliberately violate the laws against usury, the indirect methods of doing so are so numerous and so effective that the laws themselves are practically of little or no avail. Therefore, the taking of commissions, premiums, bonuses, or other costs which indirectly increase the legal rate of interest, not only to farmers, but to all other borrowers, should be made as illegal as the taking of usurious interest directly. This would be a very important preliminary step toward establishing a sound rural credit system in America.

REDUCTION OF COSTS

One of the recognized burdens relating to farm loans are the incidental expenses which are frequently termed "costs." This may include charges for searching the records, drawing up papers, making court records, and

many other items that add to the bill of expenses in procuring a loan.

In Europe, nearly all processes dealing with the making and recording of either personal or mortgage loans are simplified and performed as cheaply as possible. This is of great benefit to borrowers. In some instances, the procedure is conducted without charge, but in most cases the costs are reduced to the minimum. The simple life of farming populations subjects them to all kinds of deception as to the value of legal and other services relating to loans. This frequently leads to overcharges for performing these services. It is very important, therefore, that all kinds of protective measures shall be thrown around the farmer by the state in order to aid rural interests. In Europe the penalties for violation of these restrictions are so severe and so thoroughly enforced that few dare run the risk of breaking the law. The general result has been that usurers have largely disappeared, even in districts in which no local rural credit banks operate. On this account, farmers can usually borrow money of various institutions at a charge rarely exceeding 6 per cent which includes all expenses. The advantages to the farmer of this low cost of borrowing can readily be conceived, and it is especially beneficial in localities where coöperative credit societies are not financially strong.

In many sections of the United States, however, the reverse of this condition prevails. As already pointed out, costs and incidental expenses are frequently excessive and greatly intensify the farmer's burden of borrowing money. This is a factor which is fast ruining the farmer and is helping to increase the number of abandoned farms. It

is particularly true with reference to recording farm mortgages.

THE TORRENS SYSTEM

As a means of relief, what is known as the Torrens system of registering farm titles and farm mortgages has been advocated for the United States. This plan was developed by Sir Robert Torrens in Australia in 1858, and was later adopted in England, Canada, some countries of South America, and in this country by California, Colorado, Illinois, Indiana, Massachusetts, Michigan, Minnesota, New York, Wisconsin, and possibly other states. New York passed a land-title law in 1908, and the Torrens system of land titles was authorized under Article 12 of the Real Property Law as amended by Chapter 627 of the Laws of 1910. Under this law, a state examiner makes an examination and prepares a report on the records of a property. The title is then approved and is registered by a New York Supreme Court. After that the title cannot be questioned. A transfer of land is made by simply surrendering the old certificate and filing a new one, the cost of which is two dollars. No lawyer is needed to make a search of title, for no guaranty of title is required since the state by its own act guarantees the land title. In case, however, the state examiner overlooks some factor affecting the title in his examination for the Torrens title, the state has provided an assurance fund in order to compensate any landowner for loss incurred in being deprived of any lawful interest in his property through no fault of his own. The claim, however, must be made within six months of the original registra-

tion of the Torrens title. This is one of the simplest, sanest, safest and most economical methods of insuring title to farm lands. If it could be adopted and practiced in every state, a great burden would be taken from the shoulders of farmers and other landowners.

Unfortunately, many persons and title companies have opposed the introduction of the Torrens system, having made the process of registration as costly and as difficult as possible. In some states a suit has to be instituted in a court of record to quiet title; in others the suit has to make defendants all who are claimants in any way against the property and even fictitious claimants may be named. That action being settled in favor of the present landowner, it becomes prima facie evidence of title.

But after title has been acted on by a state court, there remains the risk that the title is not clear. In California the owner is required to give a bond to the state to protect the title; in New York and in other states an assurance fund is provided against any possible loss arising in this way. Notwithstanding all these difficulties, the cost of registration under the Torrens system is less than the present cost for making an abstract of title each time property is transferred. That the Torrens system is regarded as the better system is shown by the fact that the demand for its adoption comes mostly from those parts of the country where transfers are most frequent.

Evidently, even the Torrens system can be made less expensive in the future as opposition to its institution diminishes on the part of those who engage in making abstracts of title as a business.

PROTECTION AGAINST FORECLOSURE

In connection with the high costs of borrowing is the problem of mortgage foreclosure. As a rule, one follows the other.

Possibly no economic evil is worse, no greater iniquity is perpetrated, than that which springs from existing foreclosure proceedings. The time when the mortgage becomes due rolls around with deadly certainty, and, if repayment of the debt cannot be made, the debtor can be sold out to satisfy the creditor's claim.

While there are many who do not lend money with any such intention in view as the foreclosure of a farm mortgage or the seizure of a farmer's chattels if the debt cannot be paid at the stipulated time, there are others who make a practice of just this thing. The farmer or other debtor may have an equity in his property equaling two-thirds or more of its value, while the creditor's lien may not be one-third the property's value. But, under foreclosure proceedings, the debtor is liable to lose all he owns in his property. This is one of the crying evils of civilization—the utter disregard of the debtor's rights.

That there is need of immediate and radical reform here as preliminary to a sound rural credit system cannot be doubted. Some of our progressive states have taken steps in the right direction to reform mortgage foreclosure legislation. The State of Massachusetts, for example, passed an act, approved April 28, 1914, to facilitate rural credits and to enlarge the powers of credit unions. The incorporation of rural credit unions was made possible by Chapter 419, Laws of 1909, and the law of 1914 en-

larges the powers of these unions by permitting them to lend money on the security of first mortgages on real estate. To facilitate rural credits, the law provides as follows:

"Section 2. Such loans shall be made to members only, shall in no case exceed in amount two-thirds of the value of the property pledged as security, and shall be applied to the following purposes only: (*a*) Clearing, draining or otherwise reclaiming and permanently improving agricultural lands; (*b*) the providing of facilities for irrigation; (*c*) the planting and early care of orchards; (*d*) the erection of silos, cold-storage plants, greenhouses and permanent farm buildings; (*e*) the purchase of farms and farm lands for personal occupation and management; (*f*) the discharge of existing farm mortgages; and (*g*) subject to the approval of the bank commissioner, such other improvements of a permanent nature as, in the opinion of the directors, tend to develop agricultural resources and to increase the value of the security. The mortgage deeds securing such loans shall contain a provision for immediate foreclosure if the money lent is applied in whole or in part to purposes not hereby authorized, or if, in the opinion of the directors, it is being spent unwisely or wastefully.

"Sec. 3. Loans under the authority of this act shall be for the term of forty years; but the borrower may repay the whole or any part of his loan on any day on which the office of the corporation is open for business. For failure to pay, when due, the interest or any installment or additional charge required by the terms of the loan, the borrower may be fined, if the by-laws so prescribe; *but*

no mortgage shall be foreclosed because of such delayed payments or fines unpaid, until the sum thereof is, in the opinion of the directors, so large as to cause the total liability of the borrower to exceed two-thirds of the value of the property pledged. The loans shall bear interest at a rate not exceeding five per cent per annum, payable semi-annually, and the borrower shall also pay one per cent a year to provide for the amortization of the loans, together with such further sum, not exceeding one-half of one per cent a year, to defray the expenses of management, as the by-laws may prescribe."

While this is a step in the right direction, it is not sufficiently broad to cover the evils of mortgage foreclosure. The law applies to rural credit unions only, and it is of too recent origin to forecast to what extent these local credit unions will be formed and how far they will be able to relieve the farm-mortgage situation in Massachusetts if they should be formed. But the sentence placed in italics shows that the farmer debtor is to be protected against foreclosure, being granted every opportunity to meet his obligations.

To make this law really progressive, it should be made to apply to all farm mortgages. The Census of 1910 shows that, out of a total of 32,075 farms in Massachusetts, 13,014, or 41 per cent, are mortgaged. On 12,030 farms operated by owners, the mortgage debt reported amounted to $16,371,484, or an average mortgage debt of $1,361 to a farm.

Certainly it will take a long time for rural credit unions, organized and financed for and by farmers, to solve their farm-mortgage problem in Massachusetts. In the mean-

time, the farmers there as elsewhere are liable to become the victims of the great evils of mortgage foreclosure. Therefore, it would be the part of wisdom to amend the law to make it applicable to all existing and all future mortgage loans on farms.

There is no economic or moral reason why a creditor should be given a legal privilege to take all a debtor's property simply because the creditor has a mortgage which covers the value of part of the property only. All any creditor can justly claim is the amount of his loan, the interest thereon, and any expenses to which he may have been put in the case of a forced sale. This principle is duly recognized by state-controlled mortgage banks in Europe. It is based on equity and not on robbery such as existed in old Roman times when the creditor, in case of the non-payment of his claim, was given possession of both the debtor and his family. The march of civilization has modified this extreme iniquity by limiting the creditor's claim to the debtor's property rather than to his person, but the difference is only one of degree and not one of principle. To permit a creditor to take property worth $5,000 for a debt of $1,000 is to legalize a system of barefaced robbery. This is what our modern system of mortgage foreclosure too often permits.

There can be no progress in our credit systems and no stability to rural credits until a radical reform is instituted in the foreclosure of mortgages. The honest, struggling, overburdened debtor should be protected. The whole purpose of law, except in the case of debtors, is to protect the weak against the strong and unscrupulous. But our mortgage system does not encourage this principle. A

farm may be worth $10,000, on which there may be a mortgage of $5,000. By some misfortune or for other reason beyond his control, the debtor may not be able to pay a lump sum of $5,000, plus the interest, on the day set down in the instrument for payment. The property is sold under foreclosure at auction. The purchaser is usually the mortgage creditor or his agent who buys in the property not at its economic value, but at the amount of its mortgage indebtedness, or perhaps a trifle more to cover expenses. While the law may prescribe that any additional price shall be turned over to the debtor, who ever heard of a debtor getting anything except ruination for himself and family when mortgage foreclosure comes? This is the great dread of the farmer and it continues to stay with him so long as a mortgage lies on his farm.

Such an economic policy is absolutely wrong and, for the welfare of the country, it cannot be changed too quickly. No farmer should be deprived of the equity he owns in his farm by foreclosure, for no sane man wants to lose what he has labored a lifetime, perhaps, to accumulate. If a debtor cannot meet his mortgage when it becomes due, it is safe to conclude that some misfortune has prevented him from doing so. To foreclose a mortgage as a rule is simply to take advantage of a poor man's necessity, and this is almost as bad a practice as downright stealing. It seems too much like penalizing a debtor for misfortune. A law by a really civilized community would give no advantage to either debtor or creditor, but would aim to protect both. That is the meaning of equity, and surely the principles of equity should be

practiced where it concerns the retention or loss of one's home or farm.

For this reason our state legislatures, if they are really desirous of promoting rural credits, should give immediate attention to mortgage laws that will seek to encourage the debtor while protecting the creditor against loss. If they are unwilling to do this, it will be a difficult task to establish a sound rural credit system.

It may be said that, if changes are made in our mortgage laws, they may play into the hands of dishonest debtors as much as they play now into the hands of unscrupulous creditors. A farmer, for instance, might want to get his equity out of a poor farm and place the load on the mortgagee. That, of course, is a danger to be avoided. When, however, it is taken into consideration that, as a rule, only a small part of the real value of a farm is advanced on mortgage,—that the average farmer is not only honest but also has his business and property at stake,—there would be very few who would be willing voluntarily to abandon their farms for the equity they owned in them. If a farmer should deliberately neglect or abandon his farm, then the law should provide for drastic measures to protect the creditor. The property value would be his best protection, for mortgages are seldom taken for more than half the appraised value of the property.

But when a farmer has paid his interest regularly and is struggling to pay off his mortgage debt, he should be protected against loss in case of foreclosure by an unscrupulous creditor. Under foreclosure sale, the law could provide that a farm should not be taken over by a creditor

except by either paying its appraised value or of selling it by auction for not less than the appraised value. In that case, the difference between the price and the indebtedness—the latter including the amount of the loan, interest and costs—should go to the debtor. By this means both parties to a mortgage contract would be protected. In fact, there are many ways in which a mortgage law could provide much better for the equities of both debtor and creditor than now prevails in nearly all our states.

These suggestions are made only in view of the continuance of our present crude and burdensome mortgage system. But there are signs that the system is about to be broken down. An impression is fast gaining ground that the hope of definite rural progress will undoubtedly depend upon the adoption of an easier method of paying off mortgages, such as has been so successfully worked out in Europe. This is the plan of paying annually or semi-annually a regular sum, a definite percentage of which is applied in paying off the principal, so that, in the course of time, the debt is paid off completely and without any great burden on the farmer. This is known as the amortization of mortgage loans.

The plan is so effective in relieving the industrious farmer of the dread of foreclosure while permitting him to pay off as much more of the mortgage indebtedness as he pleases, that it should be plainly set forth before American farmers for their serious consideration.

CHAPTER XII

THE AMORTIZATION OF FARM MORTGAGES

According to the Census of 1910, the amount of farm-mortgage debt as determined from the reports by owners making returns, was $1,726,172,851. Many farmers failed to report their mortgage indebtedness, so that the total sum would materially exceed this amount. This gives an average indebtedness of $1,715 to the mortgaged farm, an increase of 40 per cent over the year 1890. At 6 per cent the interest paid every year by farmers on their mortgages amounts to $103,570,370. Evidently, then, the subject of farm-mortgage indebtedness is a very important one.

How shall the farmer be relieved of this stupendous burden which is crushing both him and agriculture? Under the straight mortgage system that has been practiced in this country, farm-mortgage indebtedness has increased 40 per cent in twenty years. This ratio of farm-debt increase certainly cannot continue without detriment to the progress of agriculture and to the national welfare.

As a preliminary statement to the formulation of an entirely different plan from that now in force, it may be said that, on the basis of annual repayments on the principal of 1 per cent in addition to the interest, this whole indebtedness could be wiped out in forty years. Is that

worth considering? If so, it only depends upon our farmers and our state legislatures to put the system into practice.

AMORTIZATION DEFINED AND ILLUSTRATED

By "amortization" is meant the method of paying a debt by regular semi-annual or annual installments. To illustrate:

Suppose a farmer gives a mortgage on his farm of $1,000, with interest at 5 per cent. In addition to the interest, he agrees to pay 2 per cent a year on the principal. This makes a total of 7 per cent a year, or a payment of $70, which may be paid in two semi-annual installments of $35 each. The first year's interest and payment on the principal are taken as the amount to be paid annually. But of the first payment, $50 represents the interest and $20 the payment on the principal. After the first year's payment, therefore, instead of owing $1,000, the farmer owes only $980, with interest at 5 per cent.

For the sake of simplicity, let us suppose that payments are made annually. When the next time of payment comes around, the farmer pays his $70. Since his debt is less, the interest the second year amounts to $49 instead of $50, and therefore the payment on the principal is $21 instead of $20 as it was the first year. In the second year the debt is reduced to $959.

On the return of the third time of payment the farmer pays another $70, of which amount $47.95 represents interest and $22.05 the payment on the principal. This reduces the farmer's mortgage debt to $936.95.

Now, this system of payment and method of reducing

the debt continue until the mortgage has been lifted by a gradual process. Thus, while the annual payments are always the same, the amount of interest is always decreasing and the amount of the payments on the debt is always increasing. Consequently, the mortgage is paid off in ten to forty years according to the rate of payment on the loan that the debtor himself elects to pay when the contract is made. This is the simple principle of amortization, and it is recognized in Europe as the safest, easiest and best method of reducing land-mortgage indebtedness hitherto conceived and put into practice.

ADVANTAGES OF AMORTIZATION

An erroneous impression prevails among many farmers in this country and Canada that it will work a hardship on them to carry a mortgage for thirty, forty or fifty years, even if the repayment of a mortgage debt is made by small semi-annual or annual installments. This impression arises from a misunderstanding regarding the amortization principle. This aims to relieve the mortgage burden of the farmer and not to increase it. Under its operation in Europe, these provisions are always made:

1. The farmer makes his own choice as to the length of time he desires in which to repay his mortgage loan.
2. The contract stipulates that the farmer may pay off any additional part or all of the loan at any interest period.

By these two flexible conditions of repayment, the length of time a mortgage may run is optional with the farmer himself.

When a farmer first takes out a mortgage, his prospects for repaying the loan may seem to him to indicate twenty years as sufficient time and the rate of amortization on the loan is fixed accordingly. If, by good management or as a result of favorable seasons, the farmer finds that he has accumulated cash in his bank, the extra money can be applied on the loan at any interest period thereby repaying the mortgage so much the quicker, say in ten or fifteen years. In other words, the amortization of farm mortgages practically revolutionizes the financial status of the farmer by making him, the debtor, and not the creditor the arbiter of the time when a mortgage loan shall be repaid.

Surely, then, amortization is a great advantage to the farmer. It takes cognizance of the precarious nature of the farmer's business and his own financial condition. It practically abolishes the short-time straight mortgage loan with its shadow of foreclosure ever threatening, its expensive renewal charges, and its likelihood of long continuance. Amortization makes it possible for the farmer to pay off his mortgage debt within his lifetime, on easy terms, and to suit his own convenience and financial condition. By this method of payment, the farm mortgage is not left as a baneful heritage to his family for generation after generation. These are the most important advantages to the farmer of amortization, and it will also rejuvenate agriculture in America if put into general practice. The financial advantage to farmers is more specifically shown by the following table where the payments on a mortgage for $1,000 under both systems are contrasted:

Amortization Mortgage				Straight Mortgage	
Payment No.	*Interest at 5%*	*Paid on principal*	*Amount of mortgage debt*	*Interest at 5%*	*Amount of mortgage debt*
1........	$50.00	$20.00	$980.00	$50.00	$1,000
2........	49.00	21.00	959.00	50.00	1,000
3........	47.95	22.05	936.95	50.00	1,000
4........	46.85	23.15	913.80	50.00	1,000
5........	45.69	24.31	889.49	50.00	1,000
6........	44.47	25.52	863.96	50.00	1,000
7........	43.20	26.80	837.16	50.00	1,000
8........	41.86	28.14	809.02	50.00	1,000
9........	40.45	29.55	779.47	50.00	1,000
10........	38.97	31.03	748.44	50.00	1,000
11........	37.42	32.58	715.86	50.00	1,000
12........	35.79	34.21	681.66	50.00	1,000
13........	34.08	35.92	645.74	50.00	1,000
14........	32.29	37.71	608.03	50.00	1,000
15........	30.40	39.60	568.43	50.00	1,000
16........	28.42	41.58	526.85	50.00	1,000
17........	26.34	43.66	483.19	50.00	1,000
18........	24.16	45.84	437.35	50.00	1,000
19........	21.87	48.13	389.22	50.00	1,000
20........	19.46	50.54	338.68	50.00	1,000
21........	16.94	53.07	285.61	50.00	1,000
22........	14.28	55.72	229.89	50.00	1,000
23........	11.50	58.50	171.39	50.00	1,000
24........	8.57	61.43	109.96	50.00	1,000
25........	5.50	64.50	45.46	50.00	1,000
26........	2.27	45.46	....	50.00	1,000
	$797.73	$1,000.00	....	$1,300.00	$1,000

This comparison between amortization and straight mortgages shows that, on a mortgage debt of $1,000

running for twenty-six years at 5 per cent interest, the farmer under amortization pays in interest $797.73 and has discharged his debt by paying 2 per cent on the principal each year in addition. But under a straight mortgage on the same terms as regards the amount of mortgage, interest, and length of time, the farmer pays $1,300 in interest and still owes the original debt of $1,000. That is, the farmer has paid on his straight mortgage $502.27 more in interest than on the amortization plan and still owes $1,000. The actual benefits to the farmer by amortization are that he saves $502.27 on the amount of interest paid, his mortgage of $1,000 has been paid off by small installments, and the fear of foreclosure has not been on his mind during the period of 26 years the mortgage was in existence. These are the farmer's rewards under the amortization of farm mortgages.

AMORTIZATION IN OPERATION

As a matter of fact, the amortization plan of paying off farm mortgages has been put in operation in the United States. As already stated, by Chapter 437, Massachusetts Laws of 1914, it is provided that mortgage loans granted by rural credit unions shall be for the term of forty years, but that the borrower may repay the whole or any part of his loan on any day on which the office of the corporation is open for business. The loans are to bear interest at a rate not exceeding 5 per cent per annum, payable semi-annually, and the borrower also has to pay 1 per cent a year to provide for the amortization of the loan and a further sum, not exceeding one-half per cent a year, to defray the expenses of management

of the credit union. Under the terms of this law, therefore, by the payment of an annual sum equivalent to 6½ per cent a year on the original amount of his loan, a farmer can wipe out his mortgage indebtedness in forty years. The borrower also has the privilege of reducing the length of time by making additional payments on the loan at any time and in any amount to suit his finances.

The State of New York revised the statutes in 1914 so as to provide for a central land bank for building and loan associations. The name preferred and frequently used is savings and loan associations. These institutions in New York command resources amounting to about $65,000,000, a part of which money it is expected will now be turned into channels of farm-mortgage credit. The new banking laws provide that fifteen or more persons in any locality may form a building and loan association, while seven or more farmers may form a credit union. Many credit unions organized as associations in New York are making efforts to come in under the new credit-union law and thereby reap the benefits from the central land bank.

While heretofore the building and loan associations have devoted their finances and energies almost entirely to providing and furnishing homes for city wage-earners, it is now expected that they will extend their operations to include the needs of farmers, since the law authorizes the central land bank to issue bonds on farm mortgages and offer them for sale to the investing public.

The method of payment proposed for farmers, however, is materially different from the usual practice of building and loan associations. As a rule, city members subscribe

for shares of stock and these are paid for usually by monthly installments so that they will mature in ten or twelve years. Suppose a member subscribes for one share worth $100. On this he pays 50 cents a month or $6 a year. If loans are made at 6 per cent interest, the shares will mature in about twelve years. The member, however, in this time has only paid in about $70 in cash payments; but the profits have been annually added to his credits so that he has accumulated $100, or the face value of his share. If he is a borrower of the association, he subscribes for one share for every $100 borrowed and, besides his regular monthly installments, he has to pay interest on his loan.

With farmers, however, it is recognized that monthly payments would be more or less embarrassing. It is proposed, therefore, that payments by farmers be made either in three or six months and that the shares and mortgages shall mature any time within forty years. This can be done by making the annual payments on the mortgage 1 per cent in addition to the interest. If the New York Land Bank shall charge 4½ per cent interest, then an annual payment of 5½ per cent of the original amount of the mortgage loan will leave the farm clear of debt in forty years. But the law also provides that any part or all of the mortgage may be paid at any time and the indebtedness reduced accordingly. Further to protect the farmer, the mortgage cannot be recalled until maturity, providing payments are made regularly. In this way the State of New York proposes to finance the farmers who are landowners.

In Ohio, the building and loan associations have for

many years been adapting their methods of organization and work to the needs of farmers. Out of a total of 650 associations in that state, more than 500 furnish mortgage loans to farmers which, in 1913, aggregated about $12,000,000. They are found in eighty-two of the eighty-eight counties in the state, and in every one of the eighty-two counties the building and loan associations extend mortgage loans to farmers. These are made up to half the appraised value of farms at 6 per cent interest payable quarterly or semi-annually. The Ohio State Department reports that the loan contracts vary from one to sixteen years, but that farmers prefer two to five year contracts. The amortization plan of repayment is practiced. For example, on a loan of $1,000 an association usually requires, in addition to the interest, an additional 6 per cent to apply on the principal. On this basis a farm-mortgage loan will be extinguished in twelve years.

The State of Ohio has a very liberal law for building and loan associations and also provides an efficient inspection department especially for them. In this way the state is aiding to upbuild farms by means of these associations.

These efforts to put the amortization of farm mortgages on a working basis under state supervision have been supplemented by a trust company or bank at Joliet, Illinois, which has put the plan into actual operation. The difference between public and private effort in behalf of the farmer is well worth noting. This company makes loans on farm mortgages which are deposited with another trust company in Chicago. The loans are guaranteed on the basis of the farm mortgages and the credit of the Joliet

company. The latter issues bonds or debentures for one year and for five, ten and twenty years at 5 per cent interest. The longest farm-mortgage loans are for twenty years. On a loan a farmer pays 6 per cent interest and about $2\frac{1}{2}$ per cent on the principal. On a mortgage loan of $1,000 payable in twenty years, the semi-annual installment would amount to $43.26. The bank, therefore, which issues mortgage bonds at 5 per cent interest and charges the farmer 6 per cent makes a profit of 1 per cent. On a coöperative plan, such as that advocated by the states of New York and Massachusetts, this extra 1 per cent interest could be saved to farmers on their mortgage loans. This is in accord with experience all over Europe, that the coöperative method of granting either short-time or long-time farm loans results in rates of interest which range from $\frac{1}{2}$ to 2 per cent lower than loans made by private capital.

This amortization plan by the Joliet company was put in operation in the spring of 1913, the mortgages at present being limited to seven of the best-established counties in the State of Illinois.

THE OUTLOOK FOR AMORTIZATION

The large difference in the amount of interest which is paid by farmers under a straight mortgage system as compared with the plan of amortization makes it certain that the professional money lender is not going to adopt the latter except as a matter of necessity. Only two alternatives are possible in this case: Either a money lender is actuated by the highest patriotic motives in voluntarily making amortization loans to farmers or the law has been

invoked to make it compulsory. These are the propositions which now face our farmers.

Now, if farmers have to wait until the amortization mortgage plan, which works so admirably to their advantage, is going to come into general use as a result of the voluntary action of private money lenders, who would be the losers by it, that would be like waiting a thousand years for the financial millennium day to make its appearance. The prospects for this result are not very encouraging.

But if, by legal enactment, the amortization of farm mortgages should in future be made compulsory, then it would make little difference whether the farmers themselves, private capital, or the state furnished the money for this purpose. What the farmer needs more than anything else are mortgage loans at reasonable rates of interest, the privileges of the amortization system, and protection from the evils of foreclosure. If the amortization of farm mortgages should become general in the United States, it would be one of the greatest benefits that could be conferred on agriculture at the present time.

CHAPTER XIII

THE ISSUE OF FARM-MORTGAGE BONDS

As a practical part of the system of amortization of farm mortgages is the subject of mortgage bonds or debentures. The great problem is to make the farm mortgage more liquid,—that is, more readily turned into a cash asset in cases of emergency. The experience of Europe shows that, by means of bonds or debentures which are issued to the value of the mortgages held as security, the farm mortgage has been made one of the most liquid securities offered to the investing public.

But two questions on this subject are very important: (1) What institutions shall have authority to issue mortgage bonds? and (2) How shall their issue be regulated?

PROTECTING THE INVESTOR

One of the chief elements in the success of selling any representative wealth, such as stocks and bonds, is confidence in the value and stability of the real wealth, or security, on which they are based. This would be especially true in the case of a new kind of security, such as the farm-mortgage bond, which is new to investors in the United States. To encourage the sale of mortgage bonds, therefore, it is absolutely essential that no question can possibly arise as to their marketable value at any time on stock exchanges, subject, of course, to the natural fluctua-

tions of the stock market. If this value can be guaranteed, there is no reason why the farm-mortgage bond cannot be listed among the best of American securities.

At the present time, there is a strong general demand for the establishment of a sound rural credit system in the United States and Canada. There seems to be, however, a tendency on the part of private capitalists to take advantage of this demand by advertising farm-mortgage bonds for sale to investors. This threatens the stability of mortgage bonds issued under state supervision by farmers' coöperative associations, and it also places a great risk on honest investors.

Farm-mortgage bonds issued by private concerns may or may not be all right. What guaranty, however, does the investor have that there is any farm land or real estate to support the bonds? What guaranty does he have as to the value of the farm, as to the ratio of bond issue to farm-land values, or as to the value of the bonds issued to the mortgages themselves?

No greater injury can be done to the farmer's best asset—his land—than to permit any concern to issue farm-mortgage bonds. If no legal restrictions are placed on the issue of bonds on real property such as farms, the door will be opened to all manner of crookedness in real-estate transactions. If any private concern shall have the right to issue bonds on first mortgages, a firm could purchase a farm worth $10,000 and immediately issue bonds to the value of $100,000 and sell them to the public if they could find purchasers for them. Here would be a real value of $10,000 and a paper value of $90,000 that would be worthless. What is to prevent this very

thing from taking place? This would be wild-cat financiering ruinous to investors and a discredit to sound farm-mortgage bonds. In its intent such a scheme is not much better than counterfeiting. The farmer's credit would be ruined by any such policy in a short space of time.

The issue of farm-mortgage bonds without some kind of thorough state supervision should be prohibited in the United States. In Europe this is the basis of all farm-mortgage bond issues and redemptions. The state protects investors and upholds farmers' organizations by its strict rules and regulations regarding the issue of farm-mortgage bonds.

STATE CONTROL OF MORTGAGE BOND ISSUES

In New York and Massachusetts, where the issue of farm-mortgage bonds is permitted by law, the State Land Bank and the farmers' credit unions are designated as the institutions to issue them. The New York law of 1914 gives authority to the land bank to sell farm-land bonds under state regulations. These bonds are to be secured by first mortgages on real estate, preferably on farms under cultivation, for loans made up to 75 per cent of the appraised value of the farm on which the loan is made, and the state sees to it that each issue of bonds sold is secured by such a mortgage. This provision will make the State Land Bank bonds one of the safest forms of security for investments in New York.

Sections 4 and 5 of the Massachusetts act relating to rural credit unions provide as follows:

"Credit unions may, with the approval of the bank

commissioner, issue non-taxable forty-year debenture bonds to an amount not exceeding eighty per cent of the total mortgage loans outstanding at the date of issue. The bank commissioner shall, at least twice a year, examine all credit unions issuing such bonds, and may require the retirement of any debenture bonds outstanding in excess of the said eighty per cent. In case of such retirement, bonds to the required amount shall be called for payment in the order of their issue, and interest upon bonds so called shall cease after such date as the bank commissioner may prescribe. In case of failure of a credit union to pay the interest upon its debenture bonds or the principal when due, the debenture bonds shall be an underlying lien on all its assets, and the bank commissioner shall at once take possession of said assets and wind up the affairs of the corporation.

"Before a credit union shall make any mortgage loans or issue any debenture bonds under the authority of this act, it shall make such provision in its by-laws for the application of principal installments to the amortization of loans as the bank commissioner shall certify to be just both to the borrower and to the holder of the debenture bonds. By-laws so made and approved shall not be changed without the approval of the bank commissioner, and he shall have power to require the by-laws to be revised from time to time and, if necessary, to secure their enforcement by mandamus proceedings in the superior court."

The State of Massachusetts by this law has provided for supervision over the issue and redemption of farm-mortgage bonds. This is as it should be, since it protects investors against loss from the issue of an excessive valua-

tion of bonds and makes the debenture bonds issued by farmers' credit unions a reliable security. No better means for encouraging agriculture and laying the basis of sound rural credits has been put into practice in any state than the law enacted by Massachusetts.

By the plan of amortization and the issue of farm-mortgage bonds, New York and Massachusetts have made provision for improving rural credit conditions in those states. The savings and loan associations in the State of New York may organize with fifteen persons, either men or women, and operate within a district or territory embraced within a radius of fifty miles. These associations may become members of the State Land Bank and avail themselves of its benefits by borrowing on first mortgage at reasonable rates of interest and on the installment plan of repaying the loan.

Sufficient time, however, has not yet elapsed to determine whether or not New York farmers will find this plan adapted to their isolated farm life. A radius of fifty miles is a large territory within which for all farmers to know each other and be intimately acquainted with each other's habits of industry and personal character. Neither Massachusetts nor New York in any way offers financial aid to the farmers by proposing to lend state money for personal or mortgage credit, but they do propose to protect investors in farm-mortgage bonds by their system of state supervision. These are steps in the right direction for placing farm-mortgage credit on a reasonable and sound basis. There are other states, however, which have taken another course in financing their farmers by lending state funds to farmers on regular mortgage loans. In

fact, the extent to which the funds of states and large financial corporations are now invested in farm mortgages is not generally understood. It will be worth while, therefore, to discuss briefly this phase of rural credits in the United States.

Although the data on this subject are more or less incomplete, the facts as ascertained will show that large sums of money are now invested in farm-mortgage loans at reasonable rates of interest. If the costs of making loans to farmers by large financial corporations could be reduced to moderate limits, the need for the organization of farm mortgage mutual credit associations would not be so greatly felt by the farmers in the United States and Canada as it is at the present time.

CHAPTER XIV

REGULAR MORTGAGE LOANS TO FARMERS

While the amortization plan of redeeming farm-mortgage loans is to be preferred to any other, every other means of aiding the farmer should be appreciated until it shall come into more general use. As a matter of fact, there are several agencies now making regular mortgage loans to farmers at reasonable rates of interest. Consequently, they are of great direct benefit to the farmer and of indirect advantage to agriculture and the nation at large.

The legitimate investment of capital in farm mortgages by large financial institutions is on the increase, presumably because the safety of these investments is the first consideration rather than a high rate of interest. This tendency speaks well for the future financing of the farmer, especially if state authorities can be aroused to the extent and evil of the present commission system connected with farm loans.

As a rule, farmers have resorted for loans to private individuals, banks, insurance companies, local brokers, real-estate dealers, and mortgage firms. In most instances, the money secured as loans by farmers from these sources belongs to a third party, and the bank or firm acts only as broker and makes a commission out of the transaction. This method of borrowing simply increases the burden

of the debtor, since the commission or fee has to be paid by the borrower and not the lender. The result is that the legal rate of interest on loans is thereby increased.

It has been the aim of some agencies in this country to make direct loans to farmers on first mortgage as a means of aiding agriculture. Among these agencies are some of the states and many large insurance companies. The total investments in farm mortgages from these sources in the United States amount to a very large sum.

STATE LOANS TO FARMERS

Several states, recognizing the importance of agriculture for promoting the general welfare and the superior stability of farm mortgages, have set apart funds for the express purpose of making loans to farmers. This form of state aid should certainly be encouraged for two reasons: (1) Because a state government thereby protects its most necessary industry against the unscrupulous money lender; and (2) because the example of the state will encourage the investment of private or institutional surplus funds in farm mortgages.

One of the easiest methods of saving the farmer and other borrowers from the unscrupulous money lender is by providing facilities for securing loans on reasonable terms. This is almost as good as state legislation which hitherto has been too lax to afford debtors the protection to which they are entitled. No sane farmer would pay 5 per cent interest and 10 per cent commission for a loan if he could procure the loan without having to pay the commission. The private money lender in many states can frequently bleed the farmer who borrows because he

is unable to procure loans at banks as easily as merchants or manufacturers.

If a state should provide money for the purpose of making loans to farmers at a nominal rate of interest and with all other charges modified to cover actual costs only, a successful way would be opened to aid the farmer and promote agriculture at the same time. This kind of state aid, therefore, should have the support of all intelligent workers who are eager to promote the general welfare. It has seemed to some that state aid has a tendency to make the farmer less self-reliant. In advancing loans from state funds, however, at legal rates of interest, the farmer is placed on his own resources, as much so as if he were borrowing from a private individual or firm. The only difference is that the farmer has no extra costs or commissions to pay. Moreover, that state loans of this character do not make the farmer less self-reliant is shown by the fact that farmers are among the most prosperous in the country in those states where loans are made to them.

The practice of lending state funds on farm mortgages is not very general. Where loans of this nature are made, the fund is not only limited, but the amount that can be loaned on mortgage is also limited to a certain percentage of the value of the land. Most of the money loaned by states are school funds, and great care is taken to lend money only on good farms managed by the best trained farmers. While this is a wise precaution from a financial and business point of view, it is, evidently, not a credit system of state-wide application; for the farmer, perhaps, who is most in need of a loan is not necessarily reached by state loans made under these conditions. The following

table gives a summarized statement as to the amount of loans, rates of interest, and the limit of loan to the value of land as practiced by various states:

State	*Amount loaned*	*Rate of interest on state loans*	*Limit of loan to value of land*	*Average rate of interest on mortgage loans*
Idaho........	$1,500,000	7 per cent	One-third	8.3 per cent
Indiana......	Small sum	6 " "	Unknown	5.6 " "
Iowa........	$4,500,000	5 to 6 " "	Unknown	5.6 " "
North Dakota	1,680,000	5 " "	One-third	7.8 " "
Oklahoma....	5,000,000	5 " "	One-half	7.2 " "
Oregon.......	5,000,000+	6 " "	One-third	8.1 " "
South Dakota.	6,000,000+	5 " "	One-third	8.1 " "
Utah........	1,000,000+	6 " "	Two-thirds	8.7 " "

The + sign means that more than the sum designated is loaned to farmers on land security, the exact amount not being reported.

While the total amount of these state loans to farmers is quite a large sum which has been advanced for many years, the records show, nevertheless, that the losses on these loans have been insignificant. This not only speaks well for the farmers in the different states, but proves the stability of farm-mortgage security as an investment for public funds.

The most noticeable feature, however, about these state loans to farmers is that they are from one to three per cent lower in interest rates than loans by private individuals, banks and other institutions in the different states. The annual saving to farmers, therefore, in interest alone

in these states is quite a large sum, and this is a great financial advantage. But renewal charges and other incidental expenses are also lower with state loans than with others from private sources, so that the plan of making direct loans to farmers of school funds by the different states has not only promoted a better system of rural credit, but has been of financial benefit to the state itself by the profitable investment of some of its public funds.

As already mentioned, the State of Ohio, instead of making direct loans to farmers, has encouraged the building and loan associations to utilize their funds for this purpose. This has largely taken the place of direct state loans in Ohio, and it is to be preferred to them because in most instances the loans are made on the amortization plan. In certain agricultural sections of Ohio, there are associations which mainly loan on farms, but as a rule the building and loan associations combine both city and farm loans. The average rate of interest on farm loans in Ohio is quite low, being only 5.7 per cent. This, however, does not include charges for abstracts and other incidental expenses. On the other hand, the rate charged by building and loan associations is 6 per cent, to which other incidental expenses must be added. While, therefore, the loans made by these associations to farmers are along strict business lines, they are probably as favorable as state loans to farmers in the end, because of the advantage which springs from amortization. The interest rate on farm-mortgage loans made by the building and loan associations is slightly higher than the average rate in Ohio, but the security is regarded as the best in the state, because Ohio is primarily an agricultural state. This method of financing her

farmers through the building and loan associations not only decreases the need for coöperative farm mortgage associations, but also to a large extent makes direct state loans to farmers unnecessary.

FARM LOANS BY INSURANCE COMPANIES

Of the life insurance companies doing business in the United States, from 75 to 80 per cent of them now lend part of their funds on farm mortgages. Data gathered in 1913 by the Rural Organization Service of the United States Department of Agriculture show a total of $414,000,000 invested by fifteen of the largest insurance companies. These loans are placed largely in what is known as the "corn belt" states, six of which, namely, Minnesota, Iowa, Nebraska, Kansas, North Dakota and South Dakota, have absorbed three-fourths of the insurance loans on farm mortgages.

A striking feature of these loans from insurance companies is that they carry fairly low rates of interest, being restricted largely to the sections of those agricultural states where the average rates of interest are low. Another important fact is that 31 per cent of all insurance loans on farm mortgages are placed in Iowa alone, where the average rate of interest is only 5.6 per cent. Very little of this insurance money is placed on farms south of the Ohio River and east of the Mississippi River.

The chief method of placing these loans is through agencies which submit to an insurance company the application for a proposed loan. If the loan is approved, it is made out directly to the insurance company from the borrower. The company's agent is usually known as a

local correspondent, oftentimes being selected from a local bank or real-estate firm. However, before such agents are selected to submit applications for loans, the territory itself is first inspected by the insurance company. If it deems the field suitable for loaning purposes, it proceeds to determine from time to time the conditions under which it will accept farm paper, and then the company determines the choice of some correspondent from whom it receives applications for loans. Such a correspondent acts as the agent of the borrower and not of the lending insurance company.

When applications are turned in, the acceptance of loans is generally conditioned, namely, it is customary for insurance companies to demand a year's time within which to make an examination of the property in question through their own official inspector. If, from the findings of such an inspection, the insurance company concludes that the loan is unsatisfactory, the local correspondent is expected to take over the loan at par. That is, the insurance company does not shoulder the risk; it is localized with the agent.

In a number of instances, regular contracts in making loans are made out between the insurance company and the local agency serving as an intermediary between the company and the farmer. One company which makes no regular contracts takes bonds from the local agencies for the faithful performance of their duties. When no contract or bond is used, it is customary to make an arrangement whereby an insurance company may return the loan at any time within a year if, on inspection, the loan is found undesirable.

As to the length of time farm mortgages run, the returns from various insurance companies show that the usual period is for five years, but in some instances they run from seven to ten years. This period for loans seems to have remained unchanged for a number of years. In some cases, insurance companies prefer to loan for ten years rather than five years; but the shorter period is preferred by local correspondents because it enables them to carry on a more profitable business.

As to the right of prepayment, the usual custom by insurance companies is to give the farmer the right to pay off any part of the principal on any interest date. These payments are to be made in even hundreds of dollars. This right of prepayment is a privilege usually granted at the making of the loan. But it has an effect on the rate of interest; that is, some agencies grant a lower interest rate but will not allow the right of prepayment. In some instances, however, the borrower insists on the right of prepayment, and the agent is constrained to grant it under these circumstances.

As a rule, insurance companies prefer to renew loans because this involves less expense than arranging for new loans. In any case they take very little risk, for land values are generally rising so that the security for the loan is constantly improving.

The rate of interest on loans varies from time to time in the same locality, and especially so in the different states. The usual rate of interest is 5½ per cent in the corn belt. However, in the last few years the rate has been slowly rising. Where the rate was 5 per cent two or three years ago, it is now 5½ per cent. In some states the rate has

risen from 5½ to 6 per cent. In Mississippi, Oklahoma, Texas and a few other states, the insurance companies receive as high as 6 or 6½ per cent interest on farm-mortgage loans.

While the above rates apply to loans made by insurance companies, the amount paid by borrowers includes a number of items which raise the rate considerably. Where a local correspondent or agent deals directly with an insurance company, only one commission is added. If, however, the local agent or some other firm, such as a mortgage company, makes a loan before it passes to the insurance company, two commissions are added.

There is some variation in the practice of charging commissions. As a rule, the commission is higher in those states where interest rates are higher. Sometimes the commission is a certain rate on the total amount of the loan. This is charged in advance and seems to vary from 2 to 5 per cent. At other times it may be a lower rate but apportioned so as to be collected each year with the interest, in which case the commission varies from 1 to 1½ per cent.

When a farm-mortgage loan passes through the hands of both a local agent and a loan company before it reaches an insurance company, the necessary steps and expenses may be learned from the following description:

The farmer applies to the local agent who sends the application to the loan company; the latter sends its examiner to look over the farm property. If found satisfactory and the loan company makes the loan, it has to divide its commission with the agent who sent in the application. Out of its own share the loan company has

to pay all its business expenses which may be summed up as to any individual loan as follows:

(1) Commission to the local agent, an expense in a measure determined by competitive conditions.

(2) Time and traveling expenses of the examiner. If the farm is at any distance, the traveling expenses would easily amount to $10 and the value of the time not less than $5.

(3) Examination of the abstract of title and any efforts to straighten title, both of which may involve considerable time.

(4) Drawing and executing papers.

(5) Placing the loan with an insurance company.

(6) Collection of interest, taxes and possibly the insurance also during the term of the loan.

(7) Remittance of collections to owner of loan with all necessary correspondence.

The most general objection raised by insurance companies against investment in farm mortgages is that they are not a liquid asset. This difficulty, of course, is removed by means of mortgage bonds, but insurance companies have not adopted this method of making farm-mortgage loans more readily sold on the money market in times of financial stringency. Under the present system, it would probably be impossible in times of stress to sell a farm mortgage or to realize any money on it. Another objection to farm mortgages is that the clerical and supervisory work connected with them is held to be larger than that connected with any other form of investment.

With city bonds or railroad bonds, it is possible by market quotations to find what the strength of the security

is, but the only way to find out the strength of a farm-loan security is to visit the farm. Most insurance companies have to trust to persons not directly in their employ to do this or to do it themselves. This frequently means that the head of an insurance company or its financial secretary has to take a trip every year or so in order to keep in touch with the essential features of the situation and with the parties through whom the insurance companies make loans.

While insurance companies emphasize the above objections to farm loans, there are certain factors which seem to make farm mortgages especially desirable as an investment. As compared with city loans, their value is said to fluctuate less. One insurance company, after a long experience involving the investment of $65,000,000 in farm mortgages without any losses, made the statement that there is no security so fixed or so firm for a trust-fund investment as cultivated soil. At the same time it adds that care must be exercised in selecting the territory and also the correspondent, agent or local examiner. Also constant attention must be given to shifting conditions within a given territory so as to fix with judgment the amounts to be loaned to the acre, the rate of interest to be secured, and the best method of repaying the loan.

While nothing can be said in objection to the rates of interest charged farmers by insurance companies for mortgage loans, the commissions and other incidental costs for contracting these loans, the comparatively short time that the larger part of them run, and the quite large expense connected with the renewal of these loans make it a very costly system for the average American farmer.

There is great room for improvement in these directions without in the least interfering with legitimate legal interest for invested funds. It cannot be said that farmers are well financed by being granted loans on first mortgage by insurance companies. The incidental costs for contracting a loan increase the annual charges on farm mortgages anywhere from 1½ to 5 per cent. If, however, these extra costs could be saved to the farmer, then the investment of insurance funds in farm mortgages would be a great advantage to the farmer and of material benefit to agriculture.

Under any system of regular mortgage loans now practiced in the United States, the extra costs to the farmer are what add enormously to the legal rates of interest. Relief from these high incidental costs could be secured either by enlarging the amount of state funds for the purpose of making mortgage loans to farmers, as is now done in many states, or by the establishment of a land bank in each state to deal exclusively with the subject of the issue, sale and redemption of farm-mortgage bonds. In either case, the problem of financing the landowning farmer would be pressing rapidly forward toward the point of solution.

The meritorious agencies in operation in the United States for advancing mortgage credit to farmers should be increased, although their methods of business could be greatly improved. In that case the farmers themselves would be the last ones to complain, nor would they request any long-time credit system that would be tinged in the least with governmental paternalism. The American farmer has never hesitated to meet his just obligations

and all he asks is fair treatment along credit lines in the economic work of the world. Under the present burdensome credit system he cannot do his work as efficiently as he would wish. Since this is a matter which directly concerns the welfare of the state, there is no problem to-day so important as the adoption of a better credit system for landowning farmers. No state, therefore, which has its own welfare at heart can do a wiser thing than to give careful consideration to the problem of financing its farmers and thereby promote the advance of agriculture.

CHAPTER XV

FINANCING THE TENANT FARMER

WHILE the foregoing pages have dealt almost exclusively with rural credits for landowners, probably the most difficult phase of the whole rural credit problem is that connected with farm tenancy. How shall the farm tenant be financed? Or is this a phase of the subject which had better be left alone? The growth of farm tenancy is recognized as developing a serious agricultural problem in the United States; it is evident, therefore, that the financial side of the problem is no less important. For this reason alone, the question of financing the tenant farmer calls for a brief consideration at least.

A farm tenant is understood to mean a farmer who cultivates rented land only. According to the Thirteenth Census of 1910, there were no less than 2,354,676 farm tenants in the United States divided into three classes, namely: (1) Share tenants, or those who pay one-half, one-third, one-fourth, or some definite share of the products of the farm as rent; (2) share-cash tenants, or those who pay a share of the products for part of the land they rent and cash for a part of the land; and (3) cash tenants, or those who pay a cash rental or a stated amount of labor or products per acre. The rate of increase in the number of these classes of farm tenants taken together was 16.3 per cent from 1900 to 1910 as compared with an increase

of farm owners of 8.1 per cent. At this rate, farm tenants are increasing about twice as fast as farm owners. The question of financing this large and growing body of farmers, therefore, cannot well be disregarded at the present time.

A MATTER OF PERSONAL CREDIT

By the nature of farm tenancy, there is no problem relating to long-time or land-mortgage credit. Farm tenants are not landowners, consequently they have no land to offer as security for mortgage loans. Some farm tenants, however, may own chattels of various kinds on which a chattel mortgage could be given for a loan. But this class of loans is regarded as personal or short-time loans, the chattel security taking the place of personal indorsement on notes.

The tenant farmer also makes no investment in farm improvements, so that another important factor which usually enters into farm-mortgage loans is lacking in this case as well. This limits the subject, therefore, to a consideration of plans for financing the large number of tenant farmers in the United States with personal credit.

But does the tenant farmer need credit? In all probability he needs it more than do farm owners. The basis of credit as a rule is some kind of property security, and only in rare instances is a loan made on a person's signature irrespective of whether the indorser can or cannot repay the loan at the time of maturity should the real maker of the note fail to do so. The very purpose of an indorser on a note is to secure an otherwise doubtful signature for the redemption of a loan.

When a person owns unincumbered property, there is little difficulty in his being granted limited credit at a store or bank where he is known. If a resident in a given locality has a reputation for honesty, sobriety, and business ability, he may also be allowed a limited credit with or without a qualified indorser. But, as a rule, the money lender or the storekeeper requires some kind of tangible security of much greater value than the amount of a contemplated loan, so that, in case of non-payment of the debt, the property advanced as security may be sold and the debt realized. This is a general business practice based on the principle of protecting the creditor from loss, and it is not open to criticism as regards loans to tenant farmers.

But credit is as dangerous as it is useful. A farmer with good credit may continue to borrow until he becomes bankrupt, simply because he expended his borrowed funds for non-productive purposes. When the time comes for repayment, as come it inevitably must, he may not have the money with which to repay the loan and the security for it has to be sold to make the loan good. If the farmer had been unable to borrow, he would under these circumstances have been better off financially. There are undoubtedly many farmers in the United States who are deeply in debt because their credit has been so good. The fact is debt is dangerous, and no tenant farmer should run in debt if he can possibly avoid it.

PARTIES INTERESTED IN TENANT FARMING

As a means of determining the best method of financing tenant farmers, it is advisable to consider the parties most directly interested in farm tenancy. There are practically

two parties only directly interested in this form of land tenure, namely, the landowner and the tenant, though the general public has a very indirect interest in the matter. The doctrine of the state's right to conserve its natural resources makes every state a party more or less interested in tenant farming. Under a crude system of renting farms which has prevailed in the United States for many generations, there has been an enormous and rapid depletion of soil fertility in some sections of the country, and this depletion of arable soils has long been recognized as one of the most ruinous policies that could be perpetuated. To protect the soil for future generations has become a recognized duty of both the landowner and the state.

Now, if a tenant farmer, because of a lack of credit or for any other reason, fails to supply the soil with sufficient fertilizers of the right kind or by a ruinous cropping system depletes soil fertility beyond a legitimate limit set by good farming, the future welfare of the state is being as much injured indirectly as the land itself is being injured directly. In the long run it would undoubtedly be to the best interest of the state, since it cannot very well provide a credit system for tenant farmers without violating sound business principles, to provide an educational system which would teach both landowner and tenant the utter folly of any such policy as the depletion of soil fertility.

As just stated, it is difficult to see how a state government can provide credit for a large body of landless farmers without violating the principles of both business and finance. The state, through some designated official, might be able to advise as to the best course to pursue in renting farms

so as to protect the interests of all parties concerned; but when it comes to direct aid by furnishing credit to a class more or less without adequate security, it would probably do more harm than good and would be going beyond its legitimate functions. Under certain circumstances, it would be far wiser to discourage the use of credit than to grant it; for indiscriminate credit might turn out to be as ruinous to a tenant as to a landowner.

To-day the average farmer needs to be instructed as much against the unwise use of credit as in its proper use. This is a matter of education the principles of which have been much neglected in rural school educational systems. In this matter the state can play a very important part in the farm tenancy problem,—an enlightened part which in the end will work for the good of the landowner, the tenant, and the general public. The state has already assumed the task of popular education. The next step is to broaden the scope of its work in order to strengthen the weak points which have a more or less direct bearing on the economic and social development of the rural population.

THE LANDOWNER AS THE TENANT'S CREDITOR

With the state eliminated as a proper source of credit supply for farm tenants, the problem practically resolves itself into the relations which exist between the landowner and the tenant. Farm tenancy, as has been pointed out, involves some form of crop-sharing. The greater the yield of crops, the greater the share for both parties. It is to the interest of both to get good returns, but it is not to the interest of the landowner to get good returns for a

few years at the expense of his soil which is the most important asset of the farmer.

But, in addition to the land, it is not unusual for the landowner to supply the tenant with all the necessary working capital for running a farm, such as live stock, machinery, implements, and so on; in fact, it may be said that this practice is quite general.

The tenant, however, has frequently to provide the whole or part of the fertilizers to be used, with no provision stipulated as to the kind, amount and quality. This, of course, relates directly to the land itself which is the fundamental form of capital in farming. If a landowner neglects to provide for the proper care and maintenance of his soil fertility when he rents a farm to a tenant, and if the tenant is so short-sighted as to think that it is to his best interest to make all he can out of the soil without putting anything into it,—both parties have contracted to ruin their prospects with the ruin of the soil which is bound to follow and that very quickly. It is only a question of a few years when the soil will be so worn out that the yield of crops will not compensate the tenant for the amount of labor it has cost to raise them, nor will the landlord receive sufficient from his share of crops to pay interest on his invested capital. And this is one of the great dangers of our present farm-tenancy credit system.

These remarks show plainly that the farm owner is the natural source of credit for the tenant farmer. This applies not only to the need of providing the capital for proper farming, but also for lending the tenant any money required for the purchase of the necessary supplies to maintain the fertility of the soil. The latter, however, requires

a system of crop rotation and green manuring which is far more important than the furnishing of money credit to the tenant. Unless the tenant is sufficiently educated in agricultural science to know how to get the most out of the land while maintaining or even increasing soil fertility, the farmer had better undertake to provide the credit by furnishing the necessary fertilizers and by controlling the cropping system. While this may seem like taking the initiative out of the hands of the tenant, it is to the best interest of both parties and of future generations that this should be done. It is practically the only safeguard against a ruinous system which finds expression in the short lease and an itinerant farm-tenancy class. Neither works for the economic or social stability of farm communities, and without this stability progress in rural life is well-nigh impossible.

So long as farm conditions in the United States do not permit of the ready formation of rural credit societies of the Raiffeisen type as a means of supplying credit and supplies to farm tenants, the problem of financing the tenant farmer seems to rest primarily with the landowner. In this respect Italy, perhaps, furnishes the best illustration of both systems working in different parts of the country under different rural conditions. These systems have been outlined in the chapter on "Personal Credit for the Landless Farmer." Briefly, in those parts of Italy where farms are small and the rural population is densely settled and largely of the tenant class, the Wollemborg rural credit banks, which are organized and conducted on Raiffeisen principles, admit tenant farmers to membership in great numbers, sometimes outnumbering the land-

owning farmers three to one. In these densely-settled agricultural districts the tenant farmers are financed with short-time loans on the basis of their personal character.

But in other parts of Italy where the system of latifundia or large estates prevails and where the rural population is not very numerous, an entirely different plan has been worked out which is more or less comparable to American farming conditions so far as the size of farms is concerned. In Tuscany, for example, many large estates are divided up by the owners into farms ranging from 7½ to 50 acres in size, and on each of these farms is placed a farmer's family large enough to do the farm work. The financing of these tenant farmers by the landowner includes the following:

(1) A house for the tenant's family.

(2) All farming capital consisting of live stock and stables, feed for the working stock, and implements.

(3) Half the costs of seeds, fertilizers, and feed for fattening market cattle. If the tenant has no money, the landowner either purchases all the supplies or lends the tenant the required amount of money without interest.

(4) In cases of partial crop failure, if the tenant's share is not sufficient to cover his year's expenses, the landowner advances enough money to the tenant to keep him on the farm. No interest is charged for the loan which is repaid in more profitable years.

(5) In case of the illness or death of a tenant so that farm labor has to be hired, the landowner pays for this labor to help the tenant.

(6) The lease provides for the rotation of crops which

thereby gives the landowner a supervision over the tenant's system of farming.

(7) The crops or the profits from fattening cattle are divided equally at the end of the season.

The net results of this plan of financing tenant farmers are permanence of tenant occupancy of farms, the gradual accumulation of a surplus by the tenant, and a copartnership interest by landowner and tenant in soil conservation. Practically no other need of credit is felt by tenants who operate farms under such a practical and intelligent system as is carried out on many large estates in Italy.

THE FUNCTIONS OF LANDLORD AND TENANT

There is every reason for landowners who rent out their land to take into consideration the economic principles of farm tenancy. No more natural illustration of copartnership is possible than the mutual relations of landlord and tenant in agriculture. In such a case, the whole or part of the produce from the use of land, labor and capital is to be divided according to agreement. The main function of the landlord is to provide the means of production, and of the tenant to provide the labor of production. The mutuality is self-evident and the duty of each is perfectly plain.

A landlord would be grossly careless in guarding his own interests if he failed to demand of the tenant a proper use of the instruments of production, be these instruments land, implements, working stock, or other form of capital. And the tenant who has no regard for his obligations to his landlord, who has placed at his disposal the means of earning a living, is not worthy of being a farm tenant.

If the landlord performed the labor himself, he would provide all the factors of production and would be responsible for their proper use. But if the landlord grants to another, on the basis of a share of the produce, the privilege of supplying the labor factor of production, he has eliminated no element of responsibility as to the use or misuse of capital. It is still the landlord's capital and it is plainly his duty to look after it. Consequently, the landowning farmer who rents his farm to another owes it to himself to supervise the use of his property as if he himself were performing the labor of production.

From the economic point of view, the problem of financing the large number of tenant farmers in the United States offers no difficulty whatever. It is one of the simplest forms of coöperative enterprises possible. The obligations are purely mutual as the benefits are mutual. The credit desired by the tenant is personal or short-time credit for productive purposes, and the only natural party to supply that credit is the other member of the mutual society—the landlord. He is the best judge as to the prospects of the tenant being able to repay his loan at the appointed time. The security for the credit is on the landlord's property at crop-sharing time. Every element for making and securing a loan on a short-time basis is contained in the relations which exist between landlord and tenant, and no other party could undertake to finance the tenant farmer without running the risk of loss.

With the credit relations between landlord and tenant properly understood and carried out, tenant farming would no longer be ruinous to soil fertility. The short lease, itinerant farm tenants, and other unstable features

connected with farm tenancy would cease. The tenant would take his place beside the landowner in planning and carrying out the work of the farm to the mutual advantage of both. Herein lies the secret not only for financing the large number of tenant farmers in the United States, but of building up a more profitable agriculture for the future. Such a method of furnishing credit to farm tenants cannot be undertaken any too quickly for the financial benefit of both landlord and tenant and for the agricultural welfare of the whole country.

CHAPTER XVI

THE NATIONAL GOVERNMENT AND RURAL CREDITS

WITH a lack of organization among farmers in the United States, the question as to what part the national government can take in promoting rural credits is not easy to answer.

From a governmental point of view, the subject is comparatively new. Before the last great national political conventions occurred in the summer of 1912, practically no serious consideration had been given by the government to the subject of rural credits. Certain investigations, however, made by the Department of State through United States ambassadors brought to the attention of the American people the methods of financing farmers' organizations in various European countries.

Because of these reports on the subject issued by the Department of State, each of the three great political parties, in formulating their platforms for presentation to the voters, had inserted a plank pledging the party to rural credits legislation.

The governors of the states, at their meeting in 1912, discussed the question of rural credits and appointed a committee of nine members to report on the subject at their next annual meeting.

In 1913 the United States and the American commis-

sions made a detailed study of agricultural organization and rural credits in Europe, and these commissions made an elaborate report to Congress on both these subjects.

Finally, no less than six bills relating to the organization of some form of rural credit have been introduced into Congress during the sessions of 1913–15. These bills were referred to the subcommittee on Rural Credits of the Committee on Banking and Currency, but only one of the introduced bills—namely, the Bulkley bill—was reported to the full committee. The Committee on Banking and Currency, however, has taken no action on the subject, presumably because of the pressure of other very important legislative business or because the members recognize the difficulties connected with rural credit legislation from a national point of view.

THE BASIS OF SOUND RURAL CREDIT

If European experience, covering more than half a century of coöperative personal credit and more than a century of coöperative mortgage credit, has any lessons at all for American farmers, the most important are:—

(1) That organization among farmers has been the basis of success in their credit systems;

(2) That education in the use of credit has proceeded hand in hand with organization; and

(3) That personal supervision by the farmers themselves over their organizations and over the use of loans, made only for productive purposes, has been a prominent factor in the European system.

In no instance has any government taken the initiative in establishing a rural credit system. When legislation

by any national government has taken place, it has usually been for the purpose of facilitating or aiding the organization of farmers' coöperative societies; and when government aid has been granted, it has generally taken the form of loans at low rates of interest made to local credit societies through central or regional credit banks. For a government to take the initiative in establishing, for example, a long-time mortgage credit system would seem to European farmers like trying to make a pyramid stand on its apex.

Perhaps, therefore, the Committee on Banking and Currency has taken the wisest course in not reporting any rural credit bill at the present time. The committee has held numerous meetings and heard a large number of witnesses on the subject of rural credits. The subject-matter, as understood by these different witnesses from many walks of life, including both rural and urban, has been presented and printed in all its aspects. Notwithstanding all this testimony, both of European farmers and of our own people, relating to rural credits, the wisdom of the government taking any action at the present time is evidently open to serious question by the congressional committee which has the matter in charge. As already pointed out in these pages, there are many steps to be taken by removing the illegal burdens which now afflict our farmers, all of which are preliminary to laying a sound foundation for an American rural credit system.

Now, when all things are taken into consideration—the political autonomy of the separate states, the practical independence of American farmers, the large size of farms, the isolated condition of farm life, and the many means of

credit which landowning farmers possess—there is nothing that the national government can do towards establishing a sound rural credit system that the individual states cannot do much better. Every state ought to encourage agriculture and protect the farmer's credit if it has its own welfare at heart. Some states, as Massachusetts and New York, have undertaken to promote rural credits. The efforts put forth include legislation, organization and education—all essential factors in promoting a sound rural credit system; but the movement is too new as yet to be able to state whether or not these efforts will be successful. In fact, there is little that the states or the national government can do in establishing rural credits on a firm basis until our farmers are better organized.

THE COÖPERATIVE ORGANIZATION OF FARMERS

But when it comes to the coöperative organization of farmers, the question is whether they shall organize themselves or be aided by the states and by the national government. European experience plainly proves that there can be no sound agricultural credit system until the farmers are better organized. It seems, therefore, that the first step in the solution of our rural problems is for farmers to organize for the protection and promotion of their own interests. No one else will do it for them. No one knows the needs of farmers better than they themselves know them, and no organization is better able to look after the interests of farmers than a real farmers' organization.

In the matter of rural organization, Europe vastly excels the United States or Canada. There the farmers are

organized into small local bodies or units which, by means of ever-extending associations and federations, are finally merged into great national organizations which come more or less into direct touch with the governments. These national organizations have for their aims not only a guardianship over the farmers' interests, but an influence for promoting their economic, social and political welfare. These organizations have developed along three lines—scientific, practical and coöperative. Each performs its functions in behalf of agriculture; and, consequently, agriculture and the farmer's uplift have made rapid progress. In illustration, there are the Royal Agricultural Society of Great Britain, the Georgofili of Italy, the Société Nationale d'Agriculture de France, and the Landwirtschafts-Gesellschaft of both Germany and Austria—these are great national organizations which promote the practical and scientific phases of agriculture.

Then there are the associations and federations of agricultural coöperative and credit societies which, beginning as small local units, promote the more satisfactory distribution of farm products throughout the nation and extend different lines of credit among millions of organized farmers. In this way, organization and credit among farmers have permeated great empires and kingdoms. But it starts from the farmers and extends to the government, and does not originate with the government as is proposed by some bills introduced into Congress.

The relation of farmers' organizations to the government in Europe is best illustrated by the Landwirtschaftsrat, the representative national organization of German farmers. Every province in the German Empire has its

elected chamber of agriculture, and each of these chambers sends one or more delegates to a central organization—the Königlich Landwirtschaftsrat, or Imperial Council of Agriculture at Berlin. This is an organized agricultural assembly representing the smallest rural units, the local coöperative and credit societies, and extending to the heart of the German Empire. The provincial chamber of agriculture as part of its functions seeks to ascertain the German farmer's economic and political needs and to recommend these needs to the imperial government. The provincial chamber of agriculture also has the right of initiative in national legislation for the farmers' interests, and it has the further right of criticism of any proposed or impending national legislation.

All these different organizations have been the means of lifting European agriculture out of chaos, of organizing it on a sound economic basis, and of promoting the welfare of the farmers themselves. These have been the actual results of organized effort among farmers, and they plainly indicate that organization by farmers for farmers is more needed in the United States than national rural credit legislation.

But there are no such organizations of farmers in this country. It is true that a few local organizations are scattered here and there which have some particular producers' interests to protect and promote, but these organizations are not general in the United States. There are a few organizations also that are national in name, but their scope is not broad enough to expect that they will soon be able to guard the economic and financial interests of our farmers. In other words, there are few real agencies

at work in this country for promoting the organization of farmers.

THE DEPARTMENT OF AGRICULTURE AND THE FARMER

With the great need of coöperative and other organizations among farmers for establishing rural credits on a firm basis, the United States Department of Agriculture seems to be the one permanent national institution which ought to have the machinery for developing agriculture and for organizing farmers into coöperative societies.

But, evidently, the object of the Department of Agriculture has been the development of technical and scientific agriculture rather than to promote coöperation among farmers, to formulate any system of rural credits, or to improve the conditions of marketing farm products. During the sixteen years preceding the advent of the Democratic administration which came into power in March, 1913, the Department of Agriculture grew rapidly and broadly. Insignificant lines of governmental work more or less remotely connected with the land, or having a national bearing, have from time to time been placed under the supervision of the Department and charged against "agriculture." Many of these bureaus or divisions have little or no direct or indirect value to farmers. The few lines of work directly relating to agriculture which were carried on were almost entirely devoted to increasing production; while the broad and useful economic fields of coöperative organization, distribution, and rural credits remained practically untouched.

As a consequence of this one-sided development, the

agricultural press began to feel that the Department of Agriculture was spending large sums of money annually to procure results or to issue publications that were of little practical value to farmers. The agitation thus aroused finally attracted the attention of Congress to the apparent need of reform both in the organization and work of the Department of Agriculture. As a consequence, in making the annual appropriation for the work of the Department for the year 1914–15, the law specifically authorizes and directs the Secretary of Agriculture "to prepare a plan for reorganizing, redirecting, and systematizing the work of the Department of Agriculture as the interests of economical and efficient administration may require."

The total appropriations for the Department's work for 1914–15 amount to $19,865,832. In all the preceding years of the Department's existence, not one dollar had ever been appropriated for the study and development of coöperation among farmers or for the promotion of rural credits.

With the advent of the present administration, however, and in view of the agitation for better methods of financing our farmers, the work of rural organization has been instituted. The Act provides as follows:

"The Secretary of Agriculture is authorized to make studies of coöperation among farmers in the United States in matters of rural credits and of other forms of coöperation in rural communities; to diffuse among the people of the United States useful information growing out of these studies, in order to provide a basis for broader utilization of results secured by the research, experimental and

demonstration work of the Department of Agriculture, agricultural colleges and state experiment stations." An appropriation of $40,000 was made for this work by the national government in behalf of agricultural coöperation and rural credits.

While, therefore, the sum of practically twenty million dollars is spent by the government through the Department of Agriculture, a recent official publication under date of July, 1914, makes the startling statement that the administrative and regulatory functions of the Department "now absorb nearly two-thirds of the total appropriations." This is equivalent to saying that about one-third of the money appropriated for the Department of Agriculture is all that is expended in behalf of practical agriculture.

In behalf of agricultural coöperation and rural credits, the sum of $40,000 is only about one-fifth of one per cent of the total appropriations. It is, however, something with which to lay a foundation for rural organization, education and finance which seems to be essential to securing the best results in the future. The Act provides for the diffusion of useful information on these subjects among the American people, and education along these lines our farmers undoubtedly need. When our farmers have been organized into coöperative societies and have been instructed in the principles and the use of credit, the national government may then by legislative action facilitate the means of providing money for financing them. This could readily be done by means of state land-bank loans to local rural credit associations, in much the same way that the French government has made loans

to the regional banks for a similar purpose. This would seem to be the most natural and the wisest course for the national government to pursue in its efforts to provide better means of financing farmers in the United States.

Now, the Sixty-third Congress closed its sessions on March 4, 1915, without having passed any rural credits legislation. The chief reason for not having passed national laws relating to personal and mortgage loans for farmers seems to have been the difficulties of the problem as above outlined from a governmental point of view. These difficulties made it impossible for the congressional committees on rural credits to unite on any one of the numerous bills that were introduced. Nevertheless, the committees have decided to continue to study and to hold hearings on the subject during the recess of Congress, with a view of drawing up and introducing a satisfactory bill at the opening of the Sixty-fourth Congress. With what success these efforts will be attended, it is impossible at the present time to forecast.

CHAPTER XVII

CANADA'S PROGRESS IN COÖPERATION AND RURAL CREDITS

The farmer in Canada is as much interested in better credit facilities as the farmer is in the United States. This fact is partly shown by a sentence in Professor Michell's bulletin on "The Problem of Agricultural Credit in Canada," which reads as follows:

"Few questions in relation to economic agriculture have attracted so much attention as has the problem of supplying loans and advances to farmers at low rates of interest, and no question apart from the tariff—which is ever with us—is so agitating the minds of the western Canadian farmer at the present moment."

The farmer in Western Canada, particularly in the Province of Saskatchewan, is very much interested in the subject of long-time or mortgage credit because more than 80 per cent of all farms in the province are mortgaged to their utmost limit. Moreover, interest rates there are also very high, ranging from 9 to 15 per cent. But the interest among farmers extends to most of the Canadian provinces. Delegates were sent from four provinces to study rural credits in Europe with the American Commission in 1913, and two of these were in the east and two in the west of Canada. Moreover, nine provinces have passed legislation to encourage coöperation among farmers as a basis for agricultural credit,

and a bill has been introduced in the House of Commons of Canada entitled "An Act respecting Coöperative Credit Societies." The subject, therefore, of rural credits is of general interest throughout the Dominion at the present time.

The manifested general interest in this subject is partly due to the fact that the banks in Canada, while they can make loans on personal security, are prohibited by law from advancing money on mortgage. This, of course, greatly hinders the farmer from realizing on the land as his chief asset. Mortgage loans are principally made by private loan and mortgage companies, against which the complaint has been made that their rates of interest and preliminary fees on farm loans are excessively high. From evidence taken before the Saskatchewan Royal Agricultural Credit Commission in August, 1913, it appears that the farmers of that province found it very difficult or practically impossible to secure loans from banks on personal security or to borrow money on mortgage from loan and mortgage companies. The Canadian farmers, therefore, are in great need of better credit facilities, and efforts are being made to promote these facilities for the improvement of rural conditions.

THE SIZE OF FARMS

As has already been stated, farm conditions in Canada are very similar to those in the United States as to the economic and social life of farmers, the size of farms, density of population, and many other factors which enter largely into the rural credit problem. The following table shows the distribution and size of farm holdings in

the whole of Canada and in the provinces of Manitoba and Saskatchewan as derived from data of the Dominion Census for 1911:

Size of holdings	*All Canada*	*Manitoba*	*Saskatchewan*
	Number	Number	Number
Under 1 acre	29,967	1,280	317
1 to under 5 acres	43,710	1,773	246
5 to 10 acres	24,347	791	214
11 to 50 acres	88,964	1,575	729
51 to 100 acres	162,537	2,103	941
101 to 200 acres	228,236	18,327	48,366
201 acres and over	132,920	20,498	45,558
Total	710,681	46,347	96,371

These figures show that large farms of over 100 acres in size greatly predominate throughout Canada. In the two provinces named, which are characteristic of Western Canada, small farm holdings are the exception rather than the rule. The greater number of small farms are in the older and more densely settled eastern provinces, and this fact, as we shall see, has had an important bearing on the development of the Caisses Populaires, or People's Banks, of Quebec, Ontario, and so on, which have by far the largest part of their membership composed of farmers. These facts in themselves are sufficient to indicate that the isolation of farm life makes the economic and social life conditions of Canadian farmers very similar to what they are in the United States and creates the

same difficulties in promoting agricultural coöperation and rural credits.

ENCOURAGEMENT OF COÖPERATIVE ORGANIZATION

As a means of improving rural life conditions and of overcoming the economic difficulties connected with large farms and a scattered population, the provincial governments of the Dominion of Canada have for many years been encouraging the development of coöperative societies among farmers. This is in marked contrast to our state and national governments which have invariably disregarded this phase of the agricultural problem and its bearing on the economic welfare of the producer and consumer of farm products. While great diversity prevails as to the interpretation of the word "coöperation," much of the provincial legislation during the past ten or fifteen years has had in mind the real principles of coöperation, namely, that the member is above the dollar. The rule for many of these organizations is that they aim at economic or productive purposes only, that each member has only one vote, and that the annual surplus is distributed to each member in proportion to the amount of business he has transacted with or through the organization.

At the same time, there are two important features that are characteristic of Canadian coöperative societies as distinguished from those of Europe and which have been encouraged by provincial legislation, namely: (1) Practically all of the coöperative societies in Canada are established on the basis of limited liability of the members; and (2) the aim of many of these organizations is to establish and build up a reserve fund from part of the

profits in order to safeguard even the limited liability of members in case of unexpected financial losses on the part of the society. The latter feature seems to have been borrowed from the rural credit plan of a reserve fund which is so general among the European Raiffeisen rural credit banks.

The following is a brief survey of the most important legislative provisions passed by various provinces in Canada for the encouragement of agricultural coöperation. Only the most typical legislation, under which important associations with a large membership have been organized, has been noted.

British Columbia

This province provided for coöperation for economic purposes in 1897 by the "Farmers' Institutes Coöperation Act." The law was amended, partly repealed, and re-enacted in subsequent years in order to form a basis for more comprehensive legislation in behalf of agricultural coöperative societies. As it now stands in the revised statutes for 1913, the law provides that twenty-five or more persons may unite themselves into an association for the following purposes:

(1) The manufacture of cheese, butter, cider, jams, pickles, and spray mixtures, and the drying and canning of fruit and vegetables.

(2) The keeping of swine, and the manufacture and sale of the various products resulting therefrom.

(3) The dealing in poultry, eggs, milk, cream, and all other agricultural and horticultural products and in supplies required by patrons of such associations.

(4) The dealing in flour, feed, fertilizers, spray materials, and their accessories, and in foods of all kinds for farm stock for the purpose of supplying the same to the patrons of the association.

(5) The erection and maintenance of a cold storage plant and the sale of ice.

(6) For any purpose which may be approved by the minister of agriculture having for its object the development of agriculture.

Under this law, the liability of a shareholder is limited to the amount of his share or shares subscribed for and not paid up. A shareholder may hold shares to an amount not to exceed one-fourth of the share capital, and each share carries one vote.

A coöperative society organized under this law may borrow of the provincial government of British Columbia a sum not exceeding 80 per cent of its subscribed capital for the purpose of erecting, acquiring, maintaining or operating within the province any of the agricultural industries above enumerated. The loan, however, is subject to specific requirements as to prospect of success within a six-mile radius, the site for plant and buildings, plans, and so on. Loans are made repayable within twenty years at 4 per cent interest and with a sinking fund or amortization.

Alberta

The Province of Alberta, by Chapter 12 of the Coöperative Associations Act, 1913, has provided that seven or more persons who so desire may associate themselves together as an incorporated association of limited lia-

bility, for the purpose of carrying on any coöperative store or business. The number of shares which may be issued is unlimited, but no member can have more than one vote. Shares are payable in installments not to exceed 25 per cent each. No member is entitled to draw interest except on the paid-up portion of his share or shares.

The rules of a coöperative society organized under this law may provide for the advancing of money by the association to members on the security of real or personal property, for the investment of any part of the society's capital in the shares or on the security of any other society organized under the same law, or of any other provincial corporation of limited liability. The profits of the society may be applied to any lawful purpose. Disputes between members must be decided by a board of arbitration, and from its decision there is no appeal. Any two or more such societies may federate.

In 1913 the Province of Alberta passed a law to permit of the incorporation of the Farmers' Coöperative Elevator Company. By the law, power is given to the company to construct, acquire, maintain and operate grain elevators within the province, to buy and sell grain, and to do all things that are generally incidental to the production, storing and marketing of grain. But, in addition to operating grain elevators, the company may act as commission or general agents for any person, company, or corporation in the purchase, selling, storing and delivery of any goods required by farmers. This company, however, could not begin business until twenty local societies had been organized.

A local elevator could be organized by farmers owning

or cultivating an annual grain-crop acreage of at least 6,000 acres tributary to any shipping point and who would subscribe for an amount of stock at least equal to the value of the proposed elevator. Local farmers who desired an elevator must pay 20 per cent of the price of the subscribed stock before the erection or purchase by the company of such elevator, the remaining 80 per cent to be paid within four years from the date of subscription.

A member of the Farmers' Coöperative Elevator Company can hold no more than twenty shares of stock valued at $60 each and has only one vote.

By the law, provision is made for loans from the provincial government of Alberta at 5 per cent for the purpose of aiding in the acquisition, erection, extension, or remodelling of any elevator, the loan not to exceed 85 per cent of the estimated cost. Out of the surplus profits a dividend not exceeding 8 per cent may be paid to the shareholders. From any balance, the directors shall set aside such amount as they think best for a reserve fund, and divide the remainder among the shareholders and patrons on a pro rata basis according to the business furnished to the company by each patron.

Saskatchewan

The Saskatchewan Agricultural Coöperative Associations Act, which is Chapter 62 of the Statutes of 1913, provides that five or more persons may incorporate with limited liability for the purpose of purchasing or selling live stock, farm products and supplies on the coöperative plan at wholesale. The word "supplies" is interpreted by the law to mean building and fencing material, flour,

feed, and such other commodities as may be shipped in car-load lots and distributed from a warehouse. Of the shareholders of an association, 75 per cent must be agriculturists, and no transfer of shares is allowed which would reduce the total number of farmers below that percentage. Each member has only one vote and no shareholder can vote by proxy. The directors must so apportion the net profits as (1) to set aside 15 per cent for a reserve fund until that fund equals at least 30 per cent of the paid-up capital; (2) to pay interest on the paid-up capital stock not to exceed 6 per cent; and (3) to divide the remaining profits among the patrons, whether shareholders or not, in proportion to the amount of business transacted with each patron. As regards the last point, the by-laws may provide that the dividend due a non-shareholder may be retained and credited to him on account of capital stock until an amount has accumulated equal to the par value of a share. The patron then is entitled to a stock certificate thereby becoming a member and sharing in the dividends like other shareholders.

In March, 1911, the Saskatchewan Coöperative Elevator Company was incorporated by the provincial legislature. The law gives the company the right to construct, acquire, maintain and operate grain elevators within the Province of Saskatchewan, to buy and sell grain, and generally to do all things incidental to the production, storing and marketing of grain. The capital stock of the company may be changed from time to time by the provincial government, because it loans the company a large percentage of its subscribed capital and therefore retains control of the amount of stock the company may issue. Shares are

issued at $50 each; they can only be held by farmers and no one can hold more than twenty shares. Only 15 per cent of the face value of shares need be paid in cash, the remaining 85 per cent being subject to call. The liability of a shareholder is limited to the amount of his stock. The management is in the hands of a board of nine directors.

The company has authority to establish local elevators. Any number of shareholders may request the directors to buy or build an elevator at their shipping point. It must, however, appear to the satisfaction of the directors "that the amount of shares held by the supporters of the proposed elevator is at least equal to the value of the proposed elevator, that 15 per cent of the amount of such shares has been paid up, and that the aggregate annual crop acreage of the said shareholders represents a proportion of not less than 2,000 acres for each 10,000 bushels of elevator capacity asked for." These requirements are designed to secure the support of a sufficient number of grain-growing farmers to insure the success of the local elevator even without the aid of other patrons. No pledge is required of the shareholder to ship his grain through the local elevator; he is as free as any other farmer to sell and ship his grain as he pleases. At meetings of local elevator shareholders, each member has one vote for each share held by him up to five.

For the work of organization, the law provides for a provincial loan not exceeding $6,000 repayable in twenty annual installments. The province loans to the company for acquiring or erecting a local elevator a sum not to exceed 85 per cent of the estimated cost of the elevator.

The company is also given wide borrowing powers on the security of that part of its stock not paid up, of grain, of real and personal property, and the like.

After expenses of operating and maintaining the elevator and the installments on the provincial loans have been paid, any remaining surplus earned by the company may be distributed as follows: Shareholders may receive dividends not exceeding 10 per cent; any surplus over and above that but not exceeding 50 per cent may be paid at the company's discretion (1) to the shareholders in proportion to the amount of business done with each one; (2) to the supporters of local elevators on the basis of their aggregate relative net financial results; or (3) to the shareholders and supporters of local elevators according to each of the two preceding schemes.

Manitoba

Chapter 36 of the Revised Statutes of 1902, known as the Coöperative Association Act, provides that any seven or more persons may associate themselves together with limited liability for the purpose of carrying on any labor, trade or business, wholesale or retail, except the working of mines, minerals, or quarries, and the business of banking or insurance. The capital shall be in transferable and withdrawable shares which may be payable in installments not exceeding 20 per cent.

The best-known coöperative society in Manitoba is the Grain Growers' Grain Company. The objects of the company are "to produce, manufacture, import, export, buy, sell, deal in and deal with all cereals, fruit, vegetable, animal or other products of the farm; all products or by-

products thereof, and all machinery, implements, goods, wares and merchandise which may be used in the production and manufacture of products of the farm; and all articles, substances and things which may be utilized in the said production or in the maintenance, cultivation, improvement and development of farms; and without restricting the generality of the foregoing expressions, to carry on the business of a farmer in all its branches."

This company was an outgrowth of three great agricultural associations in the western prairie provinces—the Saskatchewan Grain Growers' Association, the Manitoba Grain Growers' Association, and the United Farmers of Alberta. These were not coöperative societies, but were rather associations of farmers engaged in grain growing. By their constitutions they sought (1) "to watch legislation relative to the grain growers' interests, particularly that affecting the marketing, grading, and distribution of their grain; and (2) to suggest to Parliament from time to time the passing of any new legislation to meet changing conditions and requirements."

In 1905, a committee was appointed by these associations to look into the marketing question. The outcome was the organization of the Grain Growers' Grain Company, Limited, in 1906, under the Manitoba Joint-Stock Companies Act, for the purpose of doing a commission business at that time in grain only. In view of the rapid development of its business, the company applied for a Dominion charter which was granted by Act of Parliament in May, 1911. By that Act, the capital of the company was placed at $2,000,000 divided into shares of $25 each, no shareholder being allowed to hold more than forty

shares. Only farmers, farm owners, lessees of farms, or their wives can be shareholders except by a resolution adopted by two-thirds of all shareholders. Each shareholder has only one vote. If the profits justify it, 8 per cent interest can be paid on the subscribed capital stock, and provision is made whereby the directors can set aside a part of the profits as a reserve fund. If a surplus still remains, it is distributed among shareholders as they themselves by resolution in annual meeting may determine.

Ontario

There is no special coöperative law in Ontario. Many coöperative societies, however, have been organized under the old general Stock Companies Act which was amended and consolidated in Chapter 31, Statutes of 1912. Under this law five or more persons may form a coöperative society, a great deal of latitude being permitted as to the constitution and by-laws, rules and regulations, and other matters pertaining to organization and management of such associations. As a basis for the formation of coöperative societies in the province, the Department of Agriculture has adopted certain model by-laws which, however, can be amended at any time to suit the needs of any particular society.

Notwithstanding the absence of any distinctive law, agricultural coöperation thrives in Ontario, especially in the packing, grading and marketing of fruit. It is also extending to the purchase of farm requirements and to other branches of agriculture besides fruit growing. A great number of these societies have by their by-laws

carefully safeguarded certain coöperative features such as limiting membership to producers only, granting a member only one vote or limiting the amount of stock any member can hold, and providing for a pro rata distribution of profits in accordance with the quantity and quality of the product furnished by each member.

The grouping of various societies as units into federations for mutual benefits is also encouraged by the provincial government. In 1906, thirteen scattered societies united under the name of "The Coöperative Fruit Growers of Ontario." Another federation organized a number of years ago is the St. Catharines Cold Storage and Forwarding Company, which is rapidly extending its business. A more recent federation is that of the Ontario and Western Coöperative Fruit Company, Limited, with a share capital of $75,000 at $5 a share. The shareholders are organized into local societies which are semi-independent. The company proposes to establish canning and jam factories and cold storage warehouses in addition to its business of marketing fruit and furnishing certain farm supplies to its members. The Ontario Department of Agriculture and the provincial secretary encourage the organization and development of coöperative societies by means of publications.

Quebec

The legislature of Quebec has passed three laws to promote coöperative organization by farmers' clubs, stock breeders, and agricultural associations. (1) Farmers' clubs of any county or territorial division may form a coöperative society by passing collectively or in each

club resolutions to that effect. The society becomes organized if the resolutions are sent to and are approved by the minister of agriculture, who gives official notice accordingly. The clubs composing the society retain their rights and privileges as individual organizations.

(2) The revised statutes provide for the organization of stock breeding syndicates. The object of a syndicate is to breed and improve farm stock. By law it may produce, hire, breed, and sell pure-bred live stock, grant premiums for the keeping of breeding animals, and purchase all products and implements connected with the breeding, feeding, and maintaining the health of farm animals. Syndicates are organized as joint-stock companies with limited liability, and shares are valued at $10 payable in five annual installments of $2 each.

(3) Coöperative agricultural associations have been established in nearly all the leading agricultural counties of the province. Among the objects of these associations are: The improvement and development of any or all branches of agriculture; the manufacture of butter and cheese; the purchase and sale of live stock, farm implements, commercial fertilizers and other necessary agricultural articles; and the purchase, transformation and sale of farm products. An association must consist of at least twenty-five persons to form a joint-stock company with variable capital and limited liability, shares being valued at $10 payable in annual installments of $1 each. Agricultural associations, farmers' clubs, and dairy societies may take shares in an association. A board of directors administers without remuneration the business affairs of an association and may borrow on the security

of the unpaid portions of the subscribed shares. Each shareholder has one vote for every share of stock he holds upon which at least one installment has been paid. The general meeting of members distributes the profits and provides for a reserve fund. So long as a reserve fund does not equal the subscribed capital, the dividends distributed cannot exceed 6 per cent of the paid-up capital. When the reserve fund becomes greater than the subscribed capital, after not more than 6 per cent has been paid in dividends and at least 10 per cent of the profits has been set aside for a reserve fund, an association may distribute the balance of the profits among the shareholders in proportion to their business with the association. The books are at all times to be open to the inspection of members. The law provides that an association's property shall be exempt from provincial taxation.

Prince Edward Island

While no general law provides for agricultural coöperation in this province, two separate laws provide for specific forms of coöperation.

(1) The Coöperative Fruit Company was incorporated in 1909 with a capital of $10,000. Its objects are to buy, sell, pack, export, and otherwise deal in fruits and vegetables of all kinds; also to establish mills or factories for the manufacture of boxes, barrels, crates, cans, packages and all other things needed in its business.

(2) In 1914 the Coöperative Egg and Poultry Association Act was passed. Its objects are: (*a*) To encourage the production and marketing of eggs and poultry and all matters connected therewith; (*b*) to supervise and encour-

age such commercial enterprises as are deemed advisable by the association to facilitate the more profitable production and disposal of the eggs and poultry of local circles; (*c*) to encourage the purchase, breeding and distribution of improved strains of high-producing stock. These efforts are aided by the live-stock branch of the Dominion Department of Agriculture.

In addition to these important lines of coöperative work, many of the farmers' institutes, although they have no legal standing, market lambs for their members and also purchase for them seeds, flour, and other farm necessaries.

New Brunswick

This province has passed no direct coöperative legislation. Chapter 46 of the Revised Statutes of 1903, however, is an Act respecting the incorporation of societies for the sale and distribution of seed grain, and it provides that such societies may be formed by not less than nine persons. At the organization of a seed-grain society, each prospective member is required to sign a certificate stating the quantity of grain he expects to contribute for sale annually.

Without definite organization, however, the members of many of the agricultural societies frequently coöperate for certain purposes. Nearly all of them buy pure-bred live stock, improved seed, and high-grade fertilizers for their members on a coöperative basis.

Nova Scotia

By Chapter 33 of the Statutes of 1908, it is provided that a limited joint-stock company can be formed by at

least five persons with a capital of not less than $1,000, of which one-half must be subscribed. The Act provides that each shareholder is entitled to one vote for every share of stock he holds and no provision is made limiting the number of shares of stock any member can hold. This follows the rules for joint-stock rather than coöperative organizations. Nevertheless, later laws permit of a centralized organization which follows more specifically coöperative principles.

By Chapter 63 of the Statutes of 1913, any number of companies not less than ten incorporated under the above Statutes of 1908 may form themselves into a central company for the following purposes: (1) To buy, sell, barter, take on consignment or dispose on consignment, pack and deal in fruit, fodder, and other farm produce as well as fertilizers and artificial manures of all kinds; arsenate of lead, spraying materials and all kinds of insecticides and fungicides, power spraying outfits, hand pumps, and all other commodities or materials incidental to their use; nails, pulp heads, paper, and all material necessary for the purpose of packing fruit and farm produce, flour, feeds, and all milling produce; seeds, farming implements, tools, wagons, and all manner of merchandise.

(2) To warehouse the same, as well with cold storage as otherwise; to market and transport the same; and to carry on the business of warehousemen and shippers of such fruit, fodder and other farm produce.

Each company which desires to become a shareholder in a central company appoints three of its own shareholders as its representatives for the purpose of its organization. These representatives elect the officers of the central

company, and after being registered the central can do business. Dividends from the profits may be declared to the shareholders in proportion to the amount paid up on their respective shares, or the profits may be used for any of the company's business purposes, or they may be used to create a reserve fund.

In 1912, no less than 27 joint-stock companies, formed under authority of the above law, had become affiliated into the "United Fruit Company of Nova Scotia, Limited," which had an authorized capital of $50,000, of which $42,000 had been subscribed. Upon organization each affiliated company subscribes 20 per cent of its authorized capital, and may be called upon by the central company for additional subscriptions of not more than 25 per cent at one time. All the affiliated societies agree to give the central association complete control of all their fruit. All apples are pooled and average prices are returned to the companies according to the class and grade of their fruit.

It is to be observed that the central company is accomplishing the chief purpose of coöperation in that the grower sells his product direct to the consumer, and also takes advantage of an organization which furnishes him necessary supplies for his business direct from the producer at much lower prices than he could secure them.

Under this law, a large number of farmers' coöperative and fruit packers' associations have been formed and are in successful operation besides the United Fruit Company. A number of them conduct coöperative farmers' stores, in which all sorts of commodities, including seeds and fertilizers, are bought and sold.

RELATION OF LEGISLATION TO RURAL CREDITS

From this brief summary of legislation in Canada to promote agricultural coöperation, it is evident that considerable progress has been made. At the same time, a lack of uniformity evidently prevails in coöperative legislation by the different provinces and not always has there been a strict adherence to the first principles of coöperation. Some provinces have gone so far in promoting coöperation as to undertake to partly finance a few of the more important enterprises, but always on a strict business basis and without the slightest feature of paternalism.

The main purpose of this provincial aid may be construed as a means of developing agriculture and coöperative marketing by those provinces whose prosperity is almost wholly dependent upon farming. This aid takes the form of furnishing money for coöperative undertakings at reasonable rates of interest and with the least trouble and at the lowest cost to the borrowing farmers' coöperative societies for preliminary and incidental expenses. And all these are laudable objects.

The movement, however, has a greater significance in its relation to the real problem of financing the farmer on the basis of both personal and mortgage credit. While the efforts in these directions may seem insignificant as yet in the face of the difficulties of the rural credit problem, still a beginning has been made. It is also to be borne in mind that the problem of agricultural credit is almost as new to Canada as it is to the United States. But with a firm basis laid in the extension of coöperative organizations throughout the Dominion and a more or less sys-

tematic official propaganda, the fruits of rural credit are bound to appear later as they did in the various European countries. In fact, the efforts that have been put forth in the past to organize coöperative rural credit, especially the more difficult phase of personal or short-time loans, have already been fruitful of good results as the following chapter will make clear.

CHAPTER XVIII

PERSONAL AND MORTGAGE CREDIT FOR FARMERS IN CANADA

EFFORTS to overcome the difficulties of the rural credit problem in Canada have been made along the lines of both personal and mortgage loans to farmers. The size of farms and the density of the rural population have in large measure determined the kind of credit organization that has been needed in different parts of the Dominion. In the more densely settled older sections of Eastern Canada, where the farms are much smaller than they are in the west, the need for personal credit has been more particularly felt. Here rural credit societies for making short-time personal loans have been developed.

On the other hand, the need of mortgage credit has been more pronounced in Western Canada, where the population is widely scattered and the farms very large in size. It seems advisable, therefore, to consider briefly the results thus far attained in promoting these phases of rural credits among the farmers of Canada.

PEOPLE'S BANKS IN CANADA

While the people's banks are not strictly rural institutions, the percentage of their membership is now so overwhelmingly composed of farmers that the name could well be changed to "rural banks." These popular banks in Canada owe their origin and success to the untiring

energy of Alphonse Desjardins, a public-spirited citizen of Point Levis, Quebec. The first bank was established in the latter place on December 6, 1900, and commenced business on January 23d of the succeeding year. From Quebec, these banks spread to Ontario and have even made their way into some of the most northerly states of New England.

The principles on which the Canadian banks operate are a modification of the Schulze-Delitzsch system. This was founded on the unlimited liability of all members for the debts of the society. Desjardins has abolished every form of liability by adopting what is known as the "capital variable," which means that deposits can be withdrawn either at will or by giving 30 days' notice at the utmost. The principles of Desjardins banks, therefore, conform almost entirely to those of the uncapitalized savings-banks in the United States. Desjardins was forced to adopt this plan for the reason, as he states, that the people in Quebec would never have accepted the unlimited liability of Schulze-Delitzsch banks nor the limited liability of the Luzzatti "Banche Popolari" of Italy.

The principles of management greatly resemble the Raiffeisen rural credit banks. Each society or bank is carried on by three committees. (1) The Council of Administration controls the admission of new members, supervises the transfer or withdrawal of stock, selects the manager who alone draws a salary, and overlooks the management of the business. (2) The Credit Committee determines the amount of credit each member can receive and passes on all applications for loans. (3) The Council of Supervision, which is elected by the share-

holders, forms a permanent board of audit and general supervision.

The capital of each society is not only variable, but it is raised by selling shares at $5 each and by receiving deposits, on which savings-bank interest rates are paid. Shares of stock may be paid for by small installments. Every applicant for membership has to be approved by the Council of Administration, the by-laws requiring that he must be honest, punctual in his payments, sober, of good habits, industrious and laborious.

Of each year's profits 20 per cent is applied to the reserve fund. An entrance fee of 10 cents is also applied to the same fund. Each society also has a Providence Fund raised by an assessment of 10 per cent on the annual profits. This fund is maintained until it reaches a maximum of one-half the annual profits distributed on the paid-up shares. This fund has been established to protect the reserve fund, since it is designed to meet any calls which threaten the stability of the credit society.

For the first six years after the establishment of the bank at Point Levis, there was no protecting legislation, and during this period only two banks were organized. But in 1906, the Quebec Syndicates Act was passed as a means of promoting the coöperative credit movement. This law aims to regulate the formation of coöperative societies for production, consumption, and credit. By its provisions, the territory within which such a society can do business are the limits of the provincial electoral district, and the responsibility of members is limited to the amount of their respective shares. Only persons within the electoral area can become members.

Since 1906, no less than 150 of these people's banks have been formed in Canada, of which number 130 are in the Province of Quebec and 20 in the French-speaking districts of eastern Ontario. The membership of these banks is about 66,000, of which 90 per cent are farmers and about 10 per cent wage-earners. The average loan is between $10 and $150, although larger loans are sometimes made. These banks have been of great assistance to the farming communities in Quebec. In the Point Levis district, several long-standing mortgages have been paid off by means of loans from the people's banks, since the borrowers pay a lower rate of interest, which is about 6 per cent. Notwithstanding the fact that these banks are small affairs, the annual business now amounts to nearly nine million dollars. Mortgage business, however, is not the aim of these banks. In the words of the organizer, their purpose is "to lend small sums to members on personal security, and the honesty of the borrowers is considered rather than his holdings in the bank. The banks work within a very small area where everyone is known to all the shareholders, and where every shareholder is interested in the repayment of the loans."

The success of the people's or semi-rural banks in the older provinces of Quebec and Ontario is due in no small degree to the fact that rural conditions there more nearly conform to those in Europe. The population is more dense, is largely of foreign origin and familiar with co-operative principles, and is industrious, thrifty and honest; the farms and other holdings are much smaller than in other parts of Canada; the population is more stable, families living in the same village and often on the same

holdings for generations. These are precisely the rural conditions which make for success with banks for small personal loans, especially if the leadership of the right persons can be secured, and they differ widely from the conditions of farm life which prevail in the grain-growing western provinces or in a great part of the United States. Desjardins has organized 23 of these banks in Massachusetts and New Hampshire, but to what extent this movement will spread in the less densely settled parts of the country the future alone will determine. Where, however, the conditions are such as to offer the prospect of success, the Desjardins' type of semi-rural bank, in which farmer and wage-earner can unite their savings, affords a good opportunity for supplying cheap money for short-time loans on personal security. But the basis of their success is evidently due to the real coöperative spirit among the members.

FARM MORTGAGE CREDIT IN SASKATCHEWAN

The only province in Canada that has passed farm-mortgage legislation is Saskatchewan. This province sent two delegates to Europe with the American Commission in 1913 to study rural credits. On their return the provincial government appointed a commission to tour the province for the purpose of ascertaining the real state of mortgage credit among farmers and whether they would be willing to try some form of coöperation for raising money on mortgage.

From the evidence presented to this official agricultural commission by farmers, bankers, loan agents, and others, the following significant facts were ascertained:

That in some districts of Saskatchewan nearly every farm was mortgaged, while for the whole province more than 80 per cent of all farms are mortgaged; that it has always been difficult to raise money from banks and mortgage companies, but that in 1913 it was practically impossible to secure loans on farm mortgage from them; that interest rates usually range from 9 to 14 per cent, one instance only being recorded where it was as low as 7 per cent and one where it was 15 per cent; that the preliminary fees which a farmer had to pay before he could obtain a loan were very high and even extortionate; that the average size of farms was 295 acres, on which the average indebtedness was about $1,500 or $5 to the acre; and that during the 15 months ended August 15, 1913, there had been 1,723 mortgage sale proceedings in the province.

On the subject of whether farmers would be willing to try some form of coöperative mortgage credit, the evidence shows that out of fifteen districts in which the commission asked the question, two replied in the negative, five answered unqualifiedly in the affirmative, four would be willing if the provincial government would back the movement, and three would be willing if no government aid whatever should be given.

This, in brief, is the farm credit, mortgage indebtedness, and coöperative situation in Saskatchewan. It was regarded by the provincial commission as serious, and immediate steps were taken to remedy conditions by legislation. The outcome was "An Act to incorporate the Saskatchewan Coöperative Farm Mortgage Association," which was passed December 19, 1913. The following is a summary of the main provisions of the law:

The association will consist of three commissioners appointed by the lieutenant-governor of the province and of farmers and others who will become members. It will be an aggregate of groups or units composed of at least 10 members each and not less than twenty-five groups. Each member must be an applicant for a loan and must be willing to join with other members and the association in pledging his credit and security for the loans of other members of his group to an extent not exceeding 50 per cent of his own loan. New members may join on being accepted by at least two-thirds of the members of any group. If any member should default in his payments, and the property on being sold fail to realize the amount of his indebtedness to the association, the other members of his group can be called upon to pay their contingent liability on a pro rata basis.

Loans can be made on first mortgages only, and the association is forbidden to advance more than 40 per cent of the value of the farm land taken as security. At no time is the association permitted to loan more money than the amount of mortgage security it holds. The association is given authority to issue bonds on the security of the mortgages, and the lieutenant-governor is authorized, "on such terms and conditions not inconsistent with the provisions of this Act as may be agreed upon with the association, to guarantee the payment of the principal and interest of the mortgage bonds of the association to the extent agreed upon with the association from time to time."

The affairs of the association are also to be administered by the three provincial commissioners appointed by the

lieutenant-governor, only one of whom is to receive a salary, the other two being entitled only to a "*per diem* allowance and their actual cost of transportation to and from meetings of the commissioners or upon other business of the association." Moreover, to get the association started, "the lieutenant-governor in council shall have power to pay from the general revenues of the province the salary of the managing commissioner for a term of three years and to pay to the commissioners any sum not exceeding the amount granted by the legislature for that purpose which may be required to cover the expenses incurred in the organization of the association and of the local groups."

The law provides for the repayment of loans on the amortization plan of semi-annual or annual installments of principal and interest; the rate of interest to be charged on loans shall be only sufficient to pay the interest on and the cost of marketing its securities, the expenses of conducting the business of the association, and the creation of a reserve fund. A member may also make an additional payment on his loan on any regular interest date providing he gives the commissioners three months' previous notice in writing to that effect.

The above provision that the provincial government may guarantee the association's bonds was made because it was recognized that it would be practically impossible to raise any large sum of money, either within the province itself or in Canada, on the security of mortgage bonds bearing a low rate of interest.

While this law has been passed it has not yet been brought into operation. Section 34 provides that it shall not come into effect until proclaimed by the lieutenant-

governor in council. But from the time of the enactment of the law in December, 1913, to the present time conditions in the money markets of Europe have been such as to preclude the possibility of placing new and unknown securities. Consequently, the Saskatchewan Act has not yet been brought into operation. This will be done, however, as soon as the European money market improves.

The benefits anticipated for Saskatchewan farmers under this Act are the obtaining of loans for a long period of time, ranging from fifteen to thirty-five years, at a low rate of interest; the possibility of repaying a loan at any time under easy conditions; the impossibility of overburdening farms with debt owing to the limitation of 40 per cent of the appraised value; and the consequent incentive to increase the value of farms.

This law follows in broad outlines the methods of the German Landschaften or farm-mortgage associations. But it differs from the Landschaften materially in its provisions for government aid and supervision, for the mutual consent of two-thirds of a group to the admission of a new member, and for the liability of members of groups to the extent of 50 per cent of each one's own loan toward the indebtedness of a defaulting member. But what the final outcome of this law will be can at the present time only be conjectured. It is at least an attempt to inaugurate a better farm-mortgage credit system for the farmers of Saskatchewan.

CANADA'S COÖPERATIVE CREDIT SOCIETIES BILL

As a means to promote economy and thrift by coöperative savings and credit societies, and that legislation re-

specting the incorporation and management of such societies should be uniform throughout Canada, a bill was introduced into the House of Commons of Canada during the session of 1914 by Arthur Meighen, solicitor-general.

The bill contemplates the uniform organization and management of people's coöperative credit banks, both urban and rural. Under this bill, societies may be incorporated which have for their object the receiving of moneys on deposit from members and the making of loans to members with or without security. Any number of persons not less than seven may be incorporated as a society. The word "coöperative" has to be included in the name of every society which shall be managed by a board composed of at least five members elected by the annual general meeting. The society's capital must be created by shares which shall not be less than one dollar each. No member can have more than one vote. Ten per cent at least of a society's profits has to be set aside as a guarantee fund to meet losses. "No society shall advance money by discount, loan or otherwise to, nor accept deposits from, any person other than members thereof;" and no officer except the manager is permitted to receive a salary or any compensation whatever for services rendered to the society. Various other regulations regarding the supervision of accounts, investment of funds, the making of contracts, and other business matters are contained in the bill, all of which follow very closely the powers of officers connected with Raiffeisen or Schulze-Delitzsch credit banks, after which they seem to be closely patterned. Penalties are also prescribed for

failure of a society registered under the bill to fulfill all its provisions.

A PLAN FOR STATE AID

This summary of the rural credit problem in Canada shows that it differs very little from that in the United States. The farms are large and the life of farmers is isolated. The application of any ready-made European credit system to agricultural conditions in America seems very difficult, and even when attempts are made to adapt either the Raiffeisen personal credit system or the Landschaft mortgage credit plan to suit farm conditions in the western hemisphere, they do not seem to be able to move with success. There is nothing magical in the word "coöperation" toward establishing a workable rural credit system where farmers are unable or unwilling to organize; and, evidently, the conditions of farm life in the largest part of Canada make a coöperative plan of either personal or mortgage credit more likely to fail than to succeed.

However, there is open to the provinces of Canada, as well as to our own states, a rational plan of government aid, fostered on a strict business basis, such as the commonwealths of Australia and New Zealand have carried out. The system was instituted in the State of Victoria, Australia, in 1896, and it has been modified by the different states to meet their own agricultural conditions. In general, the system is as follows:

The money for state loans is raised by means of 4 per cent mortgage bonds and is loaned to farmers at a uniform rate of 5 per cent. The mortgage security for loans ranges

from one-half to three-fourths of the appraised value of the property. Repayment of loans is on the amortization plan, principal and interest being repayable in semi-annual installments so that the loans are paid off in twenty to forty-two years at the option of the borrower. In most states, repayment on the principal is not required for the first five years after a loan has been granted, though the borrower is allowed the privilege of repaying any amount on the principal at any time he so desires. This system of state loans has become quite general throughout Australia and New Zealand.

The benefits of this plan of financing the farmer may be judged by a brief statement on its operation in Victoria where it began. In June, 1912, the amount of loans to farmers was $14,773,000; the amount repaid $8,053,900. On repayments ten farmers were in arrears and that to the sum of $468 only. In fifteen years, the State Savings-Bank, which makes the loans, had foreclosed and sold only twenty-eight farms, at a loss of a very trifling sum on one farm only. This comparative freedom from loss is attributed to an effective method of farm inspection, appraisement, and granting of loans. Many applications for loans are rejected on the basis of insufficient security and the character and industry of the applicant.

The chief reasons for establishing this system of state loans to farmers were precisely the same as prevail in the United States and Canada, namely, high rates of interest, difficulty in borrowing money at all, loans for short periods only, and renewal charges frequent and excessive. All these difficulties were avoided by state loans, and the effect was instantaneous. Hundreds of debt-burdened

farmers, struggling against oppressive credit conditions, transferred their mortgages from banks and private lenders to the easier conditions of state mortgage loans. Not only was the interest much lower, but other charges are merely nominal under the state system of loans. On farms accessible by rail in Victoria, the inspection fee is $12.17; if situated at a distance off the railway, a small pro rata increase is made in the fee. The total additional charge to the borrower for the registration and preparation of the mortgage deed is only $3.65, or a total expense of $15.82. This would cover the costs of a mortgage loan running from twenty to forty-two years, and it is practically typical of the Australian system.

Where farm conditions are such as to preclude the possibility of establishing a coöperative mortgage credit system with any great prospect of success, a state loan system seems to be both feasible and beneficial. The statesman must no longer look at the problem from a political point of view, but rather from the broader view of economics and sociology. If a system like that of Australia and New Zealand can be conducted without loss to the state and with benefit to the farmer, the state as a whole reaps the reward in increased prosperity, and this in itself is a sufficient justification for state loans to farmers. Under farm and financial conditions which prevail in Canada, as well as in the United States, neither country would go far afield in giving it a fair trial at once or in the near future.

CHAPTER XIX

SUMMARY AND CONCLUSION

The foregoing pages set forth the main features of European rural credit systems and their lessons for American farmers. By means of this study on financing the farmer, it is now possible to summarize the essential steps for placing rural credits on a firm basis in the United States and Canada.

1. The organization of farmers into coöperative societies. Not only should the farmers themselves undertake to bring this about, but state laws should be passed to facilitate the formation of such business organizations in agriculture. The following seventeen states have already passed such laws: California, Connecticut, Florida, Idaho, Illinois, Kansas, Maine, Massachusetts, Michigan, Minnesota, Montana, Nebraska, New York, North Dakota, Oregon, Washington, and Wisconsin.

With a view to the future federation of these coöperative societies into an active national organization, there should be as much uniformity as possible in their rules and regulations. Both European and American experience shows that the statutes of coöperative societies should provide for certain definite powers to assure their success. These powers should be as follows:

(a) An association should select and determine the character of its own membership.

(b) It should limit the amount of stock any member may hold.

(c) No member should have more than one vote.

(d) The profits, if any, should be distributed to the members on the basis of the amount of business transacted by each with the organization or should be held as a reserve fund against the possibility of future losses.

These are the recognized principles of agricultural coöperative societies. In the state laws that have already been passed, these four features have been incorporated, but in a few states the laws limit the use of the word "coöperative." It would be well in all cases to define in the law what is meant by this term, and its use in any other sense should be made illegal in the names of business organizations. This would protect farmers from any effort, on the part of joint-stock companies, to discredit their associations, and it would also establish them on a sound coöperative basis which has been found to be the key-note to success throughout Europe.

2. Protection of farmers against usurious conditions. This is unquestionably the first duty of every state in the Union. These conditions are the result of various indirect methods of rendering null and void the laws against usurious interest on loans. If this reform should be instituted, more than half the difficulties surrounding the problem of financing landowning and tenant farmers would be removed at once; and, if it is not done, the hope of establishing a sound rural credit system is well-nigh groundless.

3. State long-time loans to farmers on first mortgage at reasonable rates of interest and on the amortization

plan of repayment. This is only as a means of immediate relief against the present crude and expensive mortgage system, of affording farmers an avenue of escape from the clutches of the money shark, and until coöperative credit associations have been successfully organized by farmers.

4. The adoption of a more rational and less expensive system of land registration. The Torrens system has been briefly presented and its advantages pointed out. This would be the means of saving legal expenses which now make the costs of borrowing on mortgage exceedingly high.

5. An educational propaganda by the national government on the principles of agricultural coöperation and on the proper use of credit. This seems to be the most necessary work that the national government can do toward establishing a sound system of rural credits.

With these steps taken by the farmers themselves and by our state and national governments for the protection and instruction of farmers, the problem of rural credits will be more than half solved. The principles of mutual help and self-help should never be set aside for state aid. But, by protecting the farmer against credit conditions which are extremely burdensome and by granting temporary relief from these conditions by means of state loans advanced on strict business principles, the state will simply be doing its duty in behalf of a large body of its citizens whose work is subject to the control of the forces of nature, who have been and are still more or less the prey of social parasites, and whose economic efficiency is very dependent upon a better credit system than now prevails.

From these points of view, the state would be laying the basis not only of a sound rural credit system, but of its own economic prosperity. For these reasons alone, any attempt on the part of state legislatures to finance the farmer more satisfactorily than is being done at present is to lay the foundation of a better economic and social rural life. If this little book should aid at all in bringing this about, it will not have been written in vain.

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